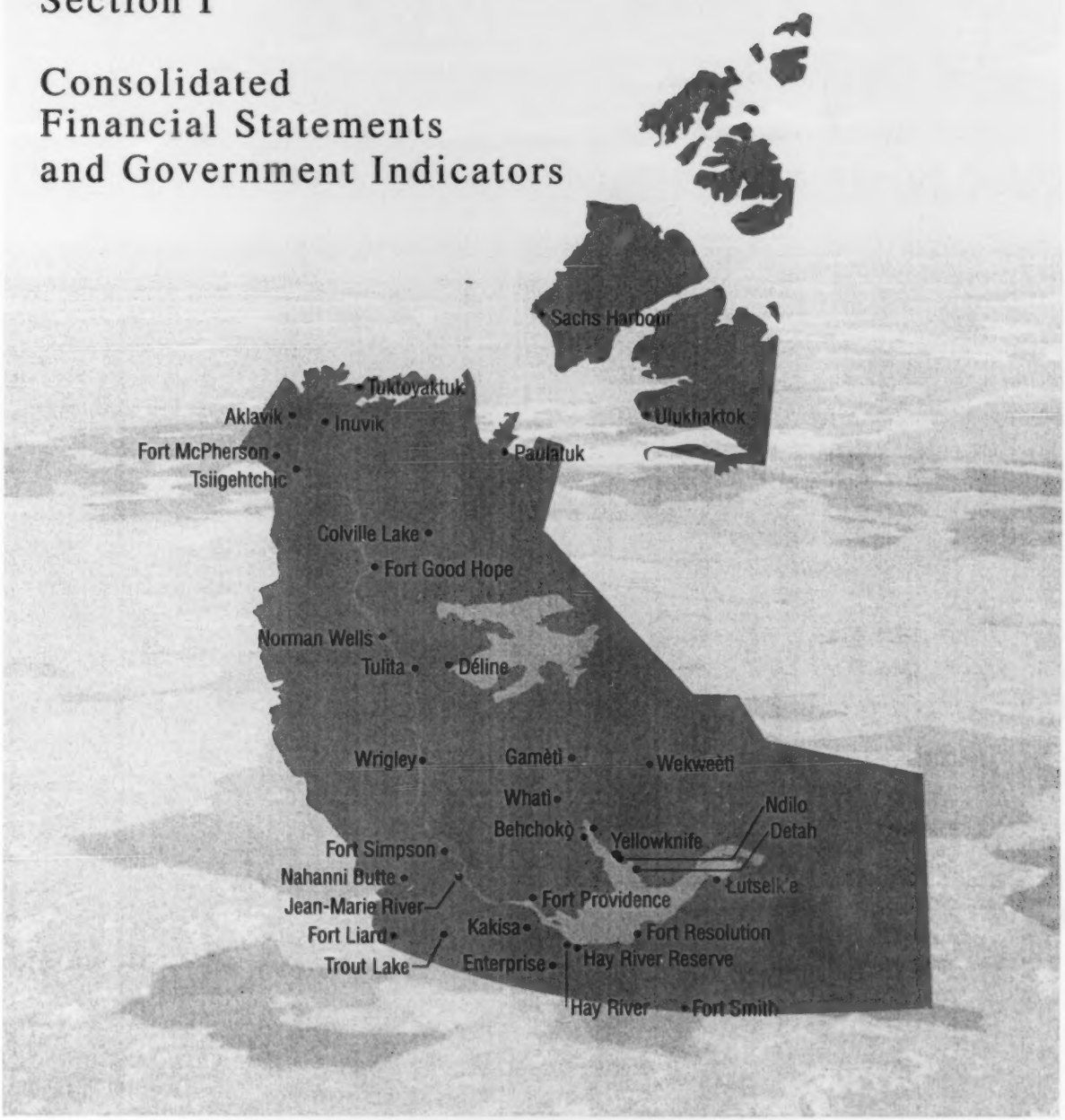
Public Accounts
2009 - 2010

Northwest Territories

Section I

Consolidated Financial Statements and Government Indicators



PUBLIC ACCOUNTS

OF THE

GOVERNMENT OF THE NORTHWEST TERRITORIES

FOR THE YEAR ENDED MARCH 31, 2010

SECTION I

CONSOLIDATED FINANCIAL STATEMENTS

Honourable J. Michael Miltenberger

Minister of Finance

This page intentionally left blank.

Northwest Territories Financial Management Board

THE HONOURABLE GEORGE L. TUCCARO
COMMISSIONER OF THE NORTHWEST TERRITORIES

I have the honour to present the Public Accounts of the Northwest Territories in accordance with Sections 27 through 31 of the *Northwest Territories Act (Canada)*, R.S.C. 1985, c. N-27, and Sections 72 through 74 of the *Financial Administration Act*, R.S.N.W.T. 1988, c. F-4, for the fiscal year ended March 31, 2010.

Honourable J. Michael Miltenberger
Chair

May 11, 2011

This page intentionally left blank.

Public Accounts of the
Government of the Northwest Territories

Table of Contents **Page**

SECTION I

CONSOLIDATED FINANCIAL STATEMENTS

RESPONSIBILITY FOR FINANCIAL REPORTING 7

AUDITOR'S REPORT 9

Consolidated Statement of Financial Position 10
Consolidated Statement of Change in Net Financial Resources (Debt) 11
Consolidated Statement of Operations and Accumulated Surplus 12
Consolidated Statement of Cash Flow 13
Notes to Consolidated Financial Statements 14
Schedule A - Consolidated Schedule of Tangible Capital Assets 39
Schedule B - Consolidated Schedule of Segmented Information 40

This page intentionally left blank.

Northwest Territories Finance

RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of the consolidated financial statements of the Government of the Northwest Territories, and related information contained in the Public Accounts, is the responsibility of the Government through the Office of the Comptroller General.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for the public sector. Where GAAP permits alternative accounting methods, management has chosen those that are most appropriate. Where required, management's best estimates and judgment have been applied in the preparation of these financial statements.

The Government fulfills its accounting and reporting responsibilities, through the Office of the Comptroller General, by maintaining systems of financial management and internal control. The systems are continually enhanced and modified to provide timely and accurate information, to safeguard and control the Government's assets, and to ensure that all transactions are in accordance with the *Financial Administration Act*.

The Public Accounts are referred to the Standing Committee on Government Operations. The recommendations of this committee are reviewed and acted on to improve the financial systems and controls.

The Auditor General of Canada performs an annual audit on the consolidated financial statements in order to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position of the Government, the change in its net financial resources (debt), the results of its operations and its cash flows for the year. During the course of the audit, she also examines transactions that have come to her notice, to ensure they are, in all significant respects, within the statutory powers of the Government and those organizations included in the consolidation.

Warren St. Germaine
Comptroller General
Government of the Northwest Territories

May 10, 2011

This page intentionally left blank.

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Legislative Assembly of the Northwest Territories

I have audited the consolidated statement of financial position of the Government of the Northwest Territories as at March 31, 2010 and the consolidated statements of change in net financial resources (debt), operations and accumulated surplus, and cash flow for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Government as at March 31, 2010 and the changes in its net financial resources (debt), the results of its operations, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Northwest Territories Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Government and the consolidated financial statements are in agreement therewith. In addition, the transactions of the Government and of those organizations listed in note 1 to the consolidated financial statements that have come to my notice during my audit of these consolidated financial statements have, in all significant respects, been in accordance with the Government's powers under the *Northwest Territories Act*, the *Financial Administration Act* of the Northwest Territories and regulations, and the specific operating authorities disclosed in note 1 to the consolidated financial statements.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Edmonton, Canada
May 10, 2011

Government of the Northwest Territories

Consolidated Statement of Financial Position

as at March 31, 2010 (thousands of dollars)

	2010 Actual $	2009 Actual $
Financial assets		
Cash and cash equivalents *(note 3)*	251,054	387,000
Portfolio investments *(note 4)*	60,673	45,044
Due from the Government of Canada *(note 11)*	56,419	46,977
Accounts receivable *(note 6)*	63,876	66,866
Inventories for resale *(note 7)*	26,997	27,276
Loans receivable *(note 8)*	111,705	98,476
Investment in Northwest Territories Hydro Corporation *(note 9)*	98,065	94,245
	668,789	**765,884**
Liabilities		
Accounts payable and accrued liabilities *(note 10)*	293,638	260,611
Due to the Government of Canada *(note 11)*	185,854	143,689
Capital lease obligations *(note 12)*	12,173	13,767
Long-term debt *(note 13)*	333,983	318,655
Pensions *(note 14)*	21,142	20,587
Other employee future benefits *(note 15)*	45,337	42,596
	892,127	**799,905**
Net debt	**(223,338)**	**(34,021)**
Non-financial assets		
Tangible capital assets *(schedule A)*	1,356,773	1,189,025
Inventories held for use *(note 7)*	2,094	-
Prepaid expenses	12,093	13,183
	1,370,960	**1,202,208**
Accumulated surplus	**1,147,622**	**1,168,187**

Contractual obligations and contingencies (*notes 18 and 19*)

Approved:

J. Michael Miltenberger
Minister of Finance

Warren St. Germaine
Comptroller General

The accompanying notes and schedules A and B are an integral part of the consolidated financial statements.

Government of the Northwest Territories

Consolidated Statement of Change in Net Financial Resources (Debt)

for the year ended March 31, 2010 (thousands of dollars)

	2010 Budget $	2010 Actual $	2009 Actual $
Net financial resources (debt) at beginning of year	(34,021)	(34,021)	63,025
Items affecting net financial resources (debt):			
Annual surplus (deficit)	(14,472)	(20,565)	(8,606)
Increase in tangible capital assets *(schedule A)*	(197,737)	(200,737)	(85,683)
Increase (decrease) in deferred capital contributions	43,316	32,991	(1,923)
Increase in inventories held for use	-	(2,094)	-
Decrease (increase) in prepaid expenses	-	1,088	(834)
Net debt at end of year	**(202,914)**	**(223,338)**	**(34,021)**

The accompanying notes and schedules A and B are an integral part of the consolidated financial statements.

Government of the Northwest Territories

Consolidated Statement of Operations and Accumulated Surplus

for the year ended March 31, 2010 (thousands of dollars)

	2010 Budget $	2010 Actual $	2009 Actual $
Revenues			
Grant from the Government of Canada	864,161	864,161	804,858
Transfer payments	102,358	146,085	135,450
	966,519	**1,010,246**	**940,308**
Taxation and general revenues			
Corporate and personal income taxes	148,145	116,798	139,993
Other taxes	94,757	102,006	101,827
General	83,573	53,641	70,551
Sales	87,417	71,397	80,049
Recoveries and amortization of capital contributions	41,428	47,869	50,127
	455,320	**391,711**	**442,547**
Recoveries of prior years expenses	3,000	13,611	7,854
	1,424,839	**1,415,568**	**1,390,709**
Expenses *(note 20)*			
Environment and economic development	122,913	113,265	113,743
Infrastructure	306,334	343,876	343,337
Education	353,153	334,668	326,224
Health, social services and housing	482,539	427,474	398,118
Justice	93,488	97,455	90,935
General government	72,568	110,014	114,731
Legislative Assembly and statutory offices	15,677	16,701	15,994
	1,446,672	**1,443,453**	**1,403,082**
Annual operating deficit	(21,833)	(27,885)	(12,373)
Net income from investment in Northwest Territories Hydro Corporation *(note 9)*	7,361	7,320	3,767
Projects on behalf of third parties			
Expenses	(56,754)	(69,677)	(57,631)
Recoveries	56,754	69,677	57,631
Annual deficit	**(14,472)**	**(20,565)**	**(8,606)**
Accumulated surplus at beginning of year		1,168,187	1,176,793
Accumulated surplus at end of year		**1,147,622**	**1,168,187**

The accompanying notes and schedules A and B are an integral part of the consolidated financial statements.

Government of the Northwest Territories

Consolidated Statement of Cash Flow

for the year ended March 31, 2010 (thousands of dollars)

	2010 Actual $	2009 Actual $
Operating Transactions		
Cash received from:		
Government of Canada	1,017,569	1,007,987
Taxation	218,056	241,543
Excess income tax advanced	21,207	-
Recoveries and general revenue	117,432	124,976
Projects for third parties	76,401	51,199
Interest received	10,992	15,864
Revolving fund sales	70,468	79,054
	1,532,125	1,520,623
Cash paid for:		
Compensation and benefits	623,198	586,333
Grants and contributions	191,828	220,865
Operations and maintenance	537,937	491,670
Excess income tax repayment	-	38,542
Projects for third parties	60,992	60,768
Interest on long-term debt and capital lease obligations	8,750	8,255
	1,422,705	1,406,433
Cash provided by operating transactions	**109,420**	**114,190**
Capital transactions		
Acquisition of tangible capital assets	(277,933)	(193,423)
Proceeds of disposition of tangible capital assets	1,988	2,242
Cash used for capital transactions	**(275,945)**	**(191,181)**
Investing transactions		
Portfolio investments redeemed (purchased)	(15,520)	(12,607)
Loans receivable receipts	5,418	451
Loans receivable advanced	(22,566)	(36,547)
Cash used for investing transactions	**(32,668)**	**(48,703)**
Financing transactions		
Repayment of capital lease obligations	(1,593)	(1,924)
Long-term financing proceeds	16,549	30,909
Long-term financing repaid	(1,221)	(1,121)
Capital contributions received and deferred	49,512	20,006
Cash provided by financing transactions	**63,247**	**47,870**
Decrease in cash and cash equivalents	**(135,946)**	**(77,824)**
Cash and cash equivalents at beginning of year	387,000	464,824
Cash and cash equivalents at end of year	**251,054**	**387,000**

The accompanying notes and schedules A and B are an integral part of the consolidated financial statements.

1. AUTHORITY AND OPERATIONS

(a) Authority and reporting entity

The Government of the Northwest Territories (the Government) operates under the authority of the *Northwest Territories Act* (Canada). The Government has an elected Legislative Assembly which authorizes all disbursements, advances, loans and investments unless specifically authorized by statute.

The consolidated financial statements have been prepared in accordance with the *Northwest Territories Act* (Canada) and the *Financial Administration Act* of the Northwest Territories. The consolidated financial statements present summary information and serve as a means for the Government to show its accountability for the resources, obligations and financial affairs for which it is responsible. The following chart lists the organizations comprising the Government reporting entity, how they are accounted for in the consolidated financial statements and their specific operating authority.

Public Agencies fully consolidated:

Education Act
- Beaufort Delta Divisional Education Council
- Commission scolaire francophone de division
- Deh Cho Divisional Education Council
- Dettah District Education Authority
- Sahtu Divisional Education Council
- South Slave Divisional Education Council
- Yellowknife Catholic Schools District Education Authority
- Yellowknife Education District No.1 District Education Authority

Aurora College Act
- Aurora College

Hospital Insurance and Health and Social Services Administration Act
- Beaufort Delta Health and Social Services Authority
- Deh Cho Health and Social Services Authority
- Fort Smith Health and Social Services Authority
- Hay River Health and Social Services Authority
- Sahtu Health and Social Services Authority
- Stanton Territorial Health Authority
- Yellowknife Health and Social Services Authority

Tlicho Community Services Agency Act
- Tlicho Community Services Agency

Northwest Territories Business Development and Investment Corporation Act
- Northwest Territories Business Development and Investment Corporation

Northwest Territories Housing Corporation Act
- Northwest Territories Housing Corporation

Human Rights Act
- Northwest Territories Human Rights Commission

Northwest Territories Societies Act
- Northwest Territories Opportunities Fund

Status of Women Council Act
- Status of Women Council of the Northwest Territories

Business Corporations Act
- Deh Cho Bridge Corporation Ltd.

Government Business Enterprise consolidated on the modified equity basis:

Northwest Territories Hydro Corporation Act
- Northwest Territories Hydro Corporation

1. AUTHORITY AND OPERATIONS (continued)

All organizations included in the Government reporting entity have a March 31 fiscal year end with the exception of Aurora College, Divisional Education Councils and District Education Authorities, which have a fiscal year end of June 30. Transactions of these educational organizations that have occurred during the period to March 31, 2010 and that significantly affect the consolidation have been recorded. Revolving funds are incorporated directly into the Government's accounts while trust assets administered by the Government on behalf of other parties *(note 17)* are excluded from the Government reporting entity. Revolving Funds are segments of the Government that are engaged in commercial activities, with undefined and non lapsing expense appropriations.

(b) Budget

The consolidated budget figures are the appropriations approved by the Legislative Assembly and the approved budgets for the consolidated entities, adjusted to eliminate budgeted inter-entity revenues and expenses. They represent the Government's original consolidated fiscal plan for the year and do not reflect supplementary appropriations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

(a) Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the Government to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements. By their nature, these estimates are subject to measurement uncertainty. The effect on the financial statements of changes to such estimates and assumptions in future periods could be significant, although, at the time of preparation of these statements, the Government believes the estimates and assumptions to be reasonable.

The more significant management estimates relate to employee future benefits, environmental liabilities, contingencies, revenue accruals, valuation allowances for accounts receivable and loans receivable, and amortization expense. Other estimates, such as the Canada Health Transfer and Canada Social Transfer payments and Corporate and Personal Income Tax revenue are based on estimates made by the Government of Canada's Department of Finance and are subject to adjustments in future years.

(b) Cash and cash equivalents

Cash and cash equivalents are comprised of bank account balances, net of outstanding cheques, and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition.

(c) Portfolio investments

Portfolio investments are long-term investments in organizations that do not form part of the government reporting entity and are accounted for by the cost method. Such investments are normally in shares and bonds of the investee. When there has been a loss in value of a portfolio investment that is other than a temporary decline, the investment is written down to recognize the loss and it is included as a component of investment income. Interest income is recorded on the accrual basis, dividend income is recognized as it is declared, and capital gains and losses are recognized when realized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Inventories

Inventories for resale consist of bulk fuels, liquor products, and arts and crafts. Bulk fuels are valued at the lower of weighted average cost and net realizable value. Liquor products are valued at the lower of cost and net realizable value. Other inventories, including housing materials and supplies, are valued at the lower of cost, determined on a first in, first out basis and net replacement value.

(e) Loans receivable

Loans receivable are stated at the lower of cost and net recoverable value. Valuation allowances, determined on an individual basis, are based on past events, current conditions and all circumstances known at the date of the preparation of the financial statements and are adjusted annually to reflect the current circumstances by recording write downs or recoveries, as appropriate. Interest revenue is recorded on an accrual basis. Interest revenue is not accrued when the collectibility of either principal or interest is not reasonably assured.

(f) Investment in Northwest Territories Hydro Corporation

The Northwest Territories Hydro Corporation ("the Corporation") and its subsidiaries are accountable to the Government, sell goods and services to the public, can contract in their own name and can maintain themselves without Government support. They are accounted for in these financial statements using the modified equity method. The Government reports only its investment in, and the consolidated net income of, the Corporation. Amounts receivable or payable from the Corporation are disclosed in the notes to these financial statements.

(g) Non-financial assets

Tangible capital and other non-financial assets are accounted for as assets by the Government as they can be used to provide government services in future periods. These assets do not normally provide resources to discharge the liabilities of the government unless they are sold.

(h) Tangible capital assets and leases

Tangible capital assets are buildings, roads, equipment, etc. whose life extends beyond the fiscal year, original cost exceeds $50 and are intended to be used on an ongoing basis for delivering programs and services. Individual assets less than $50 are expensed when purchased. Tangible capital assets are recorded at cost, or where actual cost was not available, estimated current replacement cost, discounted back to the acquisition date. Gifted and cost shared tangible capital assets from the Government of Canada are recorded at their fair market value, upon receipt, with the gifted or cost shared portion shown as a deferred capital contribution. This deferred capital contribution is amortized as revenue on the same basis as the related asset is amortized. Assets, when placed in service, are amortized on a straight line basis over their estimated useful lives as follows:

Asset category	Amortization period
Land	Not amortized
Roads and bridges	40 years or less
Airstrips and aprons	40 years or less
Buildings	40 years or less
Ferries	25 years or less
Water/sewer works	15 - 25 years
Mainframe and software systems	5 - 10 years
Mobile and heavy equipment	7 - 15 years
Major equipment	5 - 15 years
Medical equipment	5 - 15 years
Leasehold improvements	Lesser of useful life or lease term plus renewal option

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Tangible capital assets and leases (continued)

The estimate of the useful life of tangible capital assets is reviewed on a regular basis and revised where appropriate. The remaining unamortized portion of a tangible capital asset may be extended beyond its original estimated useful life when the appropriateness of such a change can be clearly demonstrated.

Tangible capital assets under construction or development are recorded as work in progress with no amortization until the asset is placed in service. Capital lease agreements are recorded as a liability and a corresponding asset based on the present value of any payments due. The present value is based on the specified rate or the Government's borrowing rate at the time the obligation is incurred. Operating leases are charged to expenses. Works of art, historical treasures and crown lands are not recorded.

(i) Pensions and other employee future benefits

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Government's contributions are charged as an expense on a current year basis and represent the total pension obligations. The Government is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

Pension benefits to Members of the Legislative Assembly and judges are reported on an actuarial basis. This is done to determine the current value of future entitlement and uses various estimates. When actual experience varies from estimates, the adjustments are amortized on a straight line basis over the estimated average remaining service lives of the contributors.

Under the terms and conditions of employment, government employees may earn non-pension benefits for resignation, severance and removal costs based on years of service. The benefits are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is recognized as employees render service. Termination benefits are also recorded when employees are identified for lay-off. The cost of the benefits has been determined based on management's best estimates using expected compensation levels and employee leave credits.

(j) Contractual obligations and contingencies

The nature of the Government's activities requires entry into contracts that are significant in relation to its current financial position or that will materially affect the level of future expenses. Contractual obligations pertain to funding commitments for operating, commercial and residential leases, and capital projects. Contractual obligations are obligations of a government to others that will become liabilities in the future when the terms of those contracts or agreements are met.

The contingencies of the Government are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. If the future event is considered likely to occur and is quantifiable, an estimated liability is accrued. If the occurrence of the confirming future event is likely but the amount of the liability cannot be reasonably estimated, the contingency is disclosed. If the occurrence of the confirming future event is not determinable, the contingency is disclosed.

(k) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using exchange rates at year-end. Foreign currency transactions are translated into Canadian dollars using rates in effect at the time the transactions were entered into. All exchange gains and losses are included in net income for the year according to the activities to which they relate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Projects on behalf of third parties

The Government undertakes projects for the Government of Canada, the Government of Nunavut and others. Where possible, the Government receives accountable advances and any unexpended balances remaining at year end are recorded as liabilities. Recoveries are accrued when expenses, as allowed under the project contract, exceed advances.

(m) Grant from the Government of Canada

The Grant from the Government of Canada is calculated as the Gross Expenditure Base, offset by eligible revenues, which are a three-year moving average, lagged two years, of personal and corporate income taxes, fuel taxes, tobacco tax, payroll tax, and alcoholic beverage revenues at national average tax rates, and a revenue block of other own-source revenues. Population growth rates and growth in provincial/local government spending are variables used to determine the Gross Expenditure Base. The Grant is calculated once for each fiscal year and is not revised.

(n) Transfer payments

Government transfers are recognized as revenue in the period in which the events giving rise to the transfer occurred, as long as the transfer is authorized, eligibility criteria have been met and a reasonable estimate of the amount can be made. Transfers received before these criteria are fully met are recorded as deferred revenue.

(o) Taxes and general revenues

Corporate and Personal Income tax revenue is recognized on an accrual basis. Taxes, under the *Income Tax Act*, are collected by the Government of Canada on behalf of the Government under a tax collection agreement. The Government of Canada remits these taxes monthly based on Canada's Department of Finance's estimates for the taxation year, which are periodically adjusted until the income tax assessments for that year are final. Income tax estimates, determined by the Government of Canada, combine actual assessments with an estimate that assumes that previous years' income tax allocations will be sustained and are subject to revisions in future years. Differences between current estimates and future actual amounts can be significant. Any such differences are recognized when the actual tax assessments are finalized.

Fuel, tobacco, payroll and property taxes are levied under the authority of the *Petroleum Products Tax Act*, the *Tobacco Tax Act*, the *Payroll Tax Act*, and the *Property Assessment and Taxation Act*, respectively. Fuel and Tobacco Tax revenues are recognized on an accrual basis, based on statements received from collectors. Payroll Tax is recognized on an accrual basis, based on revenue of the prior year. Property tax and school levies are assessed on a calendar year basis and are recognized in the fiscal year in which the billing occurs. Adjustments arising from reassessments are recorded in revenue in the year they are identified. All other revenues are recognized on an accrual basis.

(p) Expenses

Grants and contributions are recognized as expenses in the period in which the events giving rise to the grant or contribution occurred, as long as the grant or contribution is authorized, eligibility criteria have been met and a reasonable estimate of the amount can be made. All other expenses are recognized on an accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Environmental liabilities

Environmental liabilities consist of the estimated costs related to the management and remediation of environmentally contaminated sites. For contaminated sites, a liability is accrued and an expense recorded based on management's best estimates when the contamination occurs or when the Government becomes aware of the contamination and is obligated, or is likely obligated, to incur such costs. If the likelihood of the Government's obligation to incur these costs is either not determinable, or if an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

(r) Recoveries of prior years' expenses

Recoveries of prior years' expenses and reversal of prior years' expense accruals are reported separately from other revenues on the consolidated statement of operations and accumulated surplus. Pursuant to the *Financial Administration Act*, these recoveries cannot be used to increase the amount appropriated for current year expenses.

(s) Segmented information

The Government reports on segments on the basis of the accountability relationships of its operations. Segmented information is disclosed in Schedule B. Segments are identified by the nature of an entity's operations and the accountability relationship that a group of similar entities has with the Government.

Government departments are identified as one segment to reflect the direct accountability relationship for financial reporting and budgeting between departments, their respective Ministers and the Legislative assembly. There are no significant allocations of revenues or expenses between segments.

Entities considered Government Business Enterprises for financial reporting purposes are identified as another segment since the nature of their operations is substantially different from the Government and the other entities within the Government Reporting Entity.

Other Public Agencies within the Government Reporting Entity represent another segment. These agencies are typically associated with a particular Government department and have a formalized reporting relationship to that department. For example, Health and Social Services Authorities have an accountability relationship to the Minister of Health and Social Services as well as to their respective board members. The agencies in this segment operate on a not-for-profit basis and assist the Government in delivering its programs and services and in achieving its priorities.

3. CASH AND CASH EQUIVALENTS

	2010 $	2009 $
Cash	131,669	56,290
Short-term investments	119,385	330,710
	251,054	**387,000**

Cash and cash equivalents include investments in a diversified portfolio of high grade, short-term income producing assets. The portfolio yield for the year ended March 31, 2010 varied from 0.001% to 2.50% (2009 - 0.35% to 4.63%). The eligible classes of securities, categories of issuers, limits and terms are approved under the Government's investment guidelines. All instruments, depending on the investment class, are rated R-2 High or better from the Dominion Bond Rating Service. Investments are diversified by limiting them, depending on the type of investment, to a maximum of 10% to 50% of the total portfolio. There is no significant concentration in any one investment. The average term to maturity, as at March 31, 2010, is 54 days (2009 - 49 days).

4. PORTFOLIO INVESTMENTS

	2010 $	2009 $
Marketable securities (market value $60,452; 2009 - $41,626)	60,563	44,907
Miscellaneous investments	110	137
	60,673	**45,044**

Income on investments, including interest, dividends and gains or (losses) on disposal was $1,027 (2009 - $2,484).

5. DESIGNATED AND RESTRICTED ASSETS

Designated and restricted assets are included in cash and cash equivalents and portfolio investments.

Designated assets

Pursuant to the *Student Financial Assistance Act*, the assets of the Student Loan Fund are to be used to provide financial assistance to post-secondary students that meet certain eligibility criteria as prescribed in Regulations.

Pursuant to the *Waste Reduction and Recovery Act*, the assets of the Environment Fund are to be used for specified purposes as follows:

(a) the establishment, operation and evaluation of programs in respect of the reduction or recovery of waste;
(b) education programs related to the reduction or recovery of waste;
(c) research and development activities related to the reduction or recovery of waste;
(d) the appropriate disposal of a designated or prohibited material as waste;
(e) expenses associated with the work of the advisory committee; or
(f) other costs associated with programs,initiatives or activities in respect of the reduction or recovery of waste.

Portfolio investments, while forming part of the Consolidated Revenue Fund, are designated for purposes of meeting the obligations of the Legislative Assembly Supplemental Retiring Allowance and Judges Supplemental Pension Plans *(note 14)*. Supplementary Retiring Allowance Regulations restrict the investments to those permitted under the *Pension Benefits Standards Act.* The remainder consists of investments from public agencies listed in note 1(a).

5. DESIGNATED AND RESTRICTED ASSETS (continued)

Pursuant to section 27 of the *Northwest Territories Business Development and Investment Corporation Act*, and its Regulations, the Northwest Territories Business Development and Investment Corporation (BDIC) is required to establish a Loan and Investments Fund for its lending and investing activities. Subsection 4(2) of the the Program, Projects and Services Continuation Regulations (the Regulations) specifies that a Loans and Bonds Fund will be used to record the lending operations. Subsection 19(2) requires that a Venture Investment Fund be used to record the venture investment operations. Furthermore, under subsection 18(2), the BDIC is obligated to maintain a Capital Fund and Subsidy Fund.

In addition to these funds, the BDIC is required, under subsections 18(6) and 19(5) of the Regulations, to establish a Capital Reserve Fund and a Venture Reserve Fund, respectively. The BDIC will continue to deposit to these reserve funds an amount equal to 10% of each capital or venture investment made. The BDIC may use these reserve funds for further investment or financing for its subsidiaries and venture investments through approved drawdowns.

	2010 $	2009 $
Designated assets		
Student Loan Fund:		
Authorized limit for loans receivable	36,000	33,000
Less: Loans receivable balance	(33,482)	(32,478)
Funds designated for new loans	**2,518**	**522**
Environment Fund:		
Beverage Container Program net assets	**715**	**938**
Portfolio Investments for the Legislative Assembly Supplementary Retiring Allowance and Judges Supplemental Pension Plans:		
Marketable securities (market value $23,683; 2009- $20,852)	23,518	24,133
Money market (market value approximates cost)	82	562
Cash and other assets (market value approximates cost)	586	114
	24,186	**24,809**
Northwest Territories Business Development and Investment Corporation:		
Venture Investment Fund	3,683	3,618
Subsidy Fund	1,063	1,117
Capital Fund	1,201	1,234
Venture Reserve Fund	485	485
Capital Reserve Fund	90	59
Loans and Bonds Fund	370	723
	6,892	**7,236**
	34,311	**33,505**

5. DESIGNATED AND RESTRICTED ASSETS (continued)

Restricted assets

The Government, via the Deh Cho Bridge Corporation Ltd., entered into a Trust Indenture Agreement with BNY Trust Company of Canada (the "Trustee") as of February 22, 2008. All cash, shares and other securities, representing permitted investments that may at any time be deposited with or held by the Trustee in accordance with the provisions of the trust agreement are restricted. Pursuant to the Concession Agreement, and the Trust Indenture Agreement, the Deh Cho Bridge Corporation Ltd. established the Debt Service and Construction accounts in the name of the Trustee. The agreements set out specific guidelines relating to the use of funds and investments therein. These funds are used to pay costs incurred for construction of the Deh Cho Bridge. As at March 31, 2010, the restricted cash and investments account balance is invested in money market funds, yielding between 0.39% to 0.58% per annum and mature between April 1, 2010 and June 28, 2010. Subsequent to year end, these investments were redeemed upon maturity and were deposited in the Government's Consolidated Revenue Fund.

	2010 $	2009 $
Money market funds	93,929	120,144
Interest receivable	49	201
	93,978	**120,345**

6. ACCOUNTS RECEIVABLE

	2010 $	2009 $
General	49,729	51,906
Government of Nunavut	7,332	9,367
Revolving fund sales	4,709	3,780
Accrued interest	542	784
	62,312	**65,837**
Less: allowance for doubtful accounts	(5,517)	(6,052)
	56,795	**59,785**
Receivables from related parties:		
Northwest Territories Hydro Corporation	6,929	7,053
Workers' Safety and Compensation Commission	152	28
	63,876	**66,866**

7. INVENTORIES

		2010 $	2009 $
Inventories for resale:	Bulk fuels	22,582	22,467
	Liquor products	3,539	3,366
	Public Stores	171	264
	Other	705	1,179
		26,997	**27,276**
Inventories held for use:	Housing materials and supplies	**2,094**	-
		29,091	**27,276**

8. LOANS RECEIVABLE

	2010 $	2009 $
Northwest Territories Business Development and Investment Corporation loans to businesses receivable over a maximum of 25 years, bearing fixed interest between 4.41% and 7.25% , before allowance for doubtful accounts of $6,253 (2009 - $7,755)	40,939	34,893
Arslanian Cutting Works Inc. promissory note receivable, due on demand, including accrued interest at a rate of 5.06% per annum, before allowance for doubtful accounts of $2,900 (2009 - nil)	5,854	5,661
Discovery Air loan at 10% interest payable monthly, and principal due in a single payment February 1, 2013.	34,000	34,000
Deton'Cho Corporation (DCC) non-interest bearing promissory note, repayable in 20 equal installments, balance due in 2013. This note arose from the sale of shares held as security on a $2,600 loan guarantee by the Government for DCC, that was called by the Bank of Montreal. Foregone interest revenue, recorded as a Grant in Kind, is calculated at the Government's long term borrowing rate and amounted to $48 in the year (2009 - $62)	780	1,040
Students Loan Fund loans due in installments to 2023, bearing fixed interest between 1.50% and 11.75%, before allowance for doubtful accounts and loan remissions of $15,574 (2009 - $14,797)	33,482	32,478
Northwest Territories Housing Corporation mortgage and interim financing loans to individuals receivable over a maximum of 25 years, bearing fixed interest between 5.95% and 14.25%, before allowance for doubtful accounts of $13,936 (2009 - $16,142)	15,284	17,580
Northwest Territories Hydro Corporation $20,000 line of credit, secured by a promissory note, bearing interest between 0.80% and 3.40%	20,000	11,500
Other	29	18
	150,368	**137,170**
Allowance for doubtful accounts	(38,663)	(38,694)
	111,705	**98,476**

Interest earned on loans receivable during the year was $4,410 (2009 - $4,252).

9. INVESTMENT IN NORTHWEST TERRITORIES HYDRO CORPORATION

The following is summarized financial information for the Northwest Territories Hydro Corporation ("the Corporation") as at March 31, 2010.

	2010 $	2009 $
Investment in Northwest Territories Hydro Corporation Shareholder's Equity	**98,065**	**94,245**
Shareholder's Equity is represented by:		
Assets:		
Cash	1,694	5,327
Accounts receivable	16,632	21,737
Inventories	4,148	3,977
Prepaid expenses	700	649
Other long-term assets	54,898	50,260
Property, plant and equipment	290,926	274,379
Total assets	**368,998**	**356,329**
Liabilities:		
Short-term debt	38,639	29,357
Accounts payable and accrued liabilities	17,281	20,826
Dividends payable	3,500	3,500
Long-term debt	154,908	155,876
Other long-term liabilities	53,382	49,620
Employee future benefits	3,223	2,905
Total liabilities	**270,933**	**262,084**
	98,065	**94,245**

Statement of Operations and Surplus - Retained Earnings
For the year ended March 31

Revenue	87,133	85,893
Expenses	(79,813)	(82,126)
Net income	**7,320**	**3,767**
Surplus - Retained Earnings at beginning of the year	51,116	50,849
Dividend	(3,500)	(3,500)
Surplus - Retained Earnings at end of the year	**54,936**	**51,116**

Included in the above are revenues from, and expenses to, entities in the Government reporting entity of $27,269 (2009 - $23,601) and $19,776 (2009 - $19,849), respectively.

9. INVESTMENT IN NORTHWEST TERRITORIES HYDRO CORPORATION (continued)

Contractual obligations and contingencies

The Corporation's approved capital plan, including estimated costs to complete capital projects in progress, as at March 31, 2010, was $24,058 (2009 - $19,730).

The Corporation has an agreement to purchase natural gas to produce electricity in Inuvik. The minimum obligation is to purchase 5,622,900 cubic metres of natural gas per annum until July 2014. This is consistent with the Corporation's operational requirements. The price is calculated annually on August 1 and is dependent upon the Edmonton Average Unbranded High Sulphur Diesel Price as posted in the Bloomberg Oil Buyers Guide on that date.

The Corporation was named as a co-defendant in a 2005 lawsuit arising out of an all-terrain vehicle accident. It is management's estimate that no significant loss to the corporation will result from this claim. In the event that the claim is not settled in favour of the Corporation, the Corporation has insurance which may cover all or a portion of the settlement cost.

In June 2008, a contractor was working at the Corporation's Snare hydro facility when an accident occurred that resulted in injury to a contractor's employee. In May 2009, the Corporation was charged with 15 violations under the *NWT Safety Act*. Other co-defendants were also charged with violations under this *Act*. Penalties can range from nil to $500 per offence. It is too early to assess whether the Coproration will be convicted of any of the charges and thus no provision for this claim has been recognized in the financial statements.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2010 $	2009 $
Trade	161,576	146,360
Other liabilities	7,270	7,258
Employee and payroll-related liabilities	51,374	49,594
Environmental liabilities *(note 19(a))*	41,221	41,899
Provision for equal pay settlement	116	6,765
Accrued interest	274	248
Deferred funding for specified purposes	29,679	6,406
	291,510	**258,530**
Payable to related parties:		
Northwest Territories Hydro Corporation	1,665	1,714
Workers' Safety and Compensation Commission	463	367
	293,638	**260,611**

11. DUE FROM AND TO THE GOVERNMENT OF CANADA

	2010 $	2009 $
Receivables		
Indian and Inuit hospital and medical care	(2,413)	(2,413)
Projects on behalf of the Government of Canada	(13,740)	(11,716)
Miscellaneous receivables	(40,266)	(32,848)
	(56,419)	**(46,977)**
Payables		
Excess income tax advanced	105,233	84,026
Advances for projects on behalf of the Government of Canada	15,466	6,718
Miscellaneous payables	10,492	13,021
Deferred revenue	54,663	39,924
	185,854	**143,689**
	129,435	**96,712**

The amounts due to the Government of Canada are non-interest bearing. The excess income tax advanced is repayable over the following years:

	$
2011	14,501
2012	74,624
2013	15,968
2014	140
	105,233

12. CAPITAL LEASE OBLIGATIONS

	2010 $	2009 $
Buildings	12,173	13,767

Interest expense related to capital lease obligations for the year was $1,586 (2009 - $1,675), at an implicit average interest rate of 8.81% (2009 - 8.81%). Capital lease obligations are based upon contractual minimum lease obligations for the leases in effect as of March 31, 2010.

	$
2011	3,080
2012	3,080
2013	3,013
2014	2,204
2015	1,360
2016 and beyond	4,534
Total minimum lease payments	17,271
Less: imputed interest	5,098
Present value of minimum lease payments	12,173

13. LONG-TERM DEBT

	2010 $	2009 $
Northwest Territories Housing Corporation loans due to Canada Mortgage and Housing Corporation, repayable in annual installments of $832 to the year 2033, bearing interest at a rate of 6.97% (2009 - 6.97%).	9,917	10,296
Mortgage payable to Canada Mortgage and Housing Corporation, repayable in monthly installments of $8 (2009 - $9) maturing June 2024, bearing interest at 3.39% (2009 - 3.39%).	1,059	1,127
Immigrant investor loans, non-interest bearing, each repayable as a single payment 5 years after the date of issue, maturing at various dates up to April 2015.	147,427	130,878
Yellowknife Catholic Schools debentures, repayable in monthly instalments of $9, including fixed interest at 6.85%, final installment due in 2012.	279	360
Yellowknife Catholic Schools debentures, repayable in monthly installments of $68, including fixed interest at 5.73%, final installment due in 2018.	5,647	6,125
Deh Cho Bridge Corporation Ltd. real return bonds with accrued inflation adjustment, maturing June 1, 2046, redeemable at the option of the issuer, bearing interest at 3.17%, payable semi-annually, with a capital repayment schedule beginning in 2012.	165,439	165,439
Other	4,215	4,430
	333,983	318,655

13. LONG-TERM DEBT (continued)

Principal and interest amounts due in each fiscal year for the next five years:

	Principal	Interest	Total
	$	$	$
2011	28,164	6,363	34,527
2012	20,582	6,294	26,876
2013	26,954	6,209	33,163
2014	35,676	6,071	41,747
2015	47,689	5,923	53,612

Interest expense on long-term debt, included in operations and maintenance expenses, was $7,164 (2009 - $6,580).

Debt Authority

The Government has the authority to borrow, pursuant to subsection 20(2) of the *Northwest Territories Act*, within a borrowing limit authorized by the Government of Canada. Effective April 1, 2007, the Government's borrowing limit was increased from $300 million to $500 million by Order in Council P.C. 2007-0378, dated March 22, 2007. The Immigrant Investor Loans and the Deh Cho Bridge Corporation Ltd. bonds, while disclosed within the Government's long-term debt, are not part of the Government's debt for the purpose of its Authorized borrowing limit.

	2010	2009
	$	$
Government of the Northwest Territories, long-term debt	1,059	1,127
NWT Housing Corporation, loans payable	9,917	10,296
NWT Hydro Corporation, long-term debt	154,908	155,825
NWT Hydro Corporation, operational debt	18,639	17,857
Yellowknife Catholic Schools - District Education Authority	5,926	6,485
Other long-term debt	4,215	4,430
	194,664	**196,020**
Authorized borrowing limit	500,000	500,000
Available borrowing capacity	**305,336**	**303,980**

Subsequent to year end, the Government's borrowing limit was temporarily increased to $575 million by Order in Council P.C. 2010-0555, dated April 29, 2010, until March 31, 2015. On April 1, 2015, the Government's borrowing limit will return to $500 million. For purposes of the borrowing limit, the Deh Cho Bridge Corporation Ltd. bonds were assumed by the Government on April 1, 2010, and will be included in the calculation of borrowing capacity.

14. PENSIONS

a) Plans description

The Government administers the following pension plans for Members of the Legislative Assembly (MLAs) and Territorial Court Judges.

Plan recipient	Name of plan	Funded status
MLAs	Legislative Assembly Retiring Allowance Plan (MLAs Regular)	Funded
MLAs	Legislative Assembly Supplemental Retiring Allowance Plan (MLAs Supplemental)	Non Funded
Judges	Judges Registered Plan (Judges Regular)	Funded
Judges	Judges Supplemental Pension Plan (Judges Supplemental)	Non Funded
Employees	Retirement Plan for Employees of the Hay River Health and Social Services Authority	Funded

The Regular Plans for both the MLAs and Judges are contributory defined benefit registered pension plans and are pre-funded. The funds related to these plans are administered by independent trust companies. The Supplemental plans for both the MLAs and Judges are non-contributory defined benefit pension plans and are unfunded; however, the Government has made a voluntary restriction on assets for the purposes of meeting the obligations of the Supplemental plans *(note 4)*.

The Hay River Health and Social Services Authority has a defined benefit pension plan for its employees.

The Government is liable for all benefits. Benefits provided under all five plans are based on years of service and pensionable earnings.

b) Pension liability

	2010		
	Regular Funded	Supplemental Unfunded	Total
	$	$	$
Accrued benefit obligation	42,513	23,678	66,191
Pension fund assets - market related value	(43,299)	-	(43,299)
Unamortized actuarial net gains (losses)	(3,535)	1,785	(1,750)
Pension liability (asset)	**(4,321)**	**25,463**	**21,142**

	2009		
	Regular Funded	Supplemental Unfunded	Total
	$	$	$
Accrued benefit obligation	36,931	22,479	59,410
Pension fund assets - market related value	(37,774)	-	(37,774)
Unamortized actuarial net gains (losses)	(3,307)	2,258	(1,049)
Pension liability (asset)	**(4,150)**	**24,737**	**20,587**

14. PENSIONS (continued)

b) Pension liability (continued)

Included in the pension asset of $4,321 (2009 - $4,150) is a deficit for accounting purposes of the Hay River Health and Social Services Authority pension plan in the amount of $1,535 (2009 - $2,305). The Superintendent of Financial Institutions requires that all plans with a solvency ratio less than 100% file an actuarial valuation annually. The solvency shortfall for this plan is $4,870 (2009 - $4,439) and is required to be eliminated within 5 years under the *Pension Benefits Standards Act, 1985*. The values of the plan's assets and liabilities on a solvency basis are calculated as though the plan were wound up and settled on the valuation date of January 1, 2010.

c) Change in pension liability (asset)

	2010		
	Regular Funded	Supplemental Unfunded	Total
	$	$	$
Opening balance	**(4,150)**	**24,737**	**20,587**
Change to pension liability (asset) from cash items:			
Contributions from plan members	(776)	-	(776)
Contributions from Government	(2,251)	(112)	(2,363)
Benefit payment to plan members	(1,780)	(1,026)	(2,806)
Drawdown from plan assets	1,780	-	1,780
Change in pension liability (asset) from cash items	**(3,027)**	**(1,138)**	**(4,165)**
Change to pension liability (asset) from accrual items:			
Current period benefit cost	2,466	848	3,314
Amortization of actuarial net (gains) losses	441	(355)	86
Interest on average accrued benefit obligation	2,230	1,371	3,601
Return on plan assets	(2,281)	-	(2,281)
Change in pension liability (asset) from accrual items	**2,856**	**1,864**	**4,720**
Ending balance	**(4,321)**	**25,463**	**21,142**

14. PENSIONS (continued)

c) Change in pension liability (asset) (continued)

	2009		
	Regular Funded	Supplemental Unfunded	Total
	$	$	$
Opening balance	**(3,777)**	**24,127**	**20,350**
Change to pension liability (asset) from cash items:			
Contributions from plan members	(743)	-	(743)
Contributions from Government	(1,413)	(107)	(1,520)
Benefit payment to plan members	(2,188)	(1,018)	(3,206)
Drawdown from plan assets	2,188	-	2,188
Change to pension liability (asset) from cash items	**(2,156)**	**(1,125)**	**(3,281)**
Change to pension liability (asset) from accrual items:			
Current period benefit cost	2,220	768	2,988
Amortization of actuarial net (gains) losses	(164)	(388)	(552)
Interest on average accrued benefit obligation	2,158	1,355	3,513
Return on plan assets	(2,431)	-	(2,431)
Change in pension liability (asset) from accrual items	**1,783**	**1,735**	**3,518**
Ending balance	**(4,150)**	**24,737**	**20,587**

d) Pension expense

The components of pension expense include current period benefit cost, amortization of actuarial net (gains) / losses and interest on average accrued benefit obligation net of the return on plan assets and contributions from plan members. The total expense is $3,944 (2009 - $2,775). The interest cost on the accrued benefit obligation was determined by applying the discount rate determined at the beginning of the period to the average value of the accrued benefit obligation for the period. The expected return on plan assets was determined by applying the assumed rate of return on plan assets to the average market-related value of assets for the period. The difference between the expected and actual return on plan assets was a loss of $(2,141) (2009 - $(5,531)).

In addition to the above, the Government contributed $45,902 (2009 - $49,798) to the Public Service Superannuation Plan. The employees' contributions to this plan were $22,748 (2009 - $23,384).

e) Changes to pension plans in the year

There have been no plan amendments, plan settlements and curtailments or temporary deviations from the plan in 2010 (no changes in 2009).

14. PENSIONS (continued)

f) Valuation methods and assumptions used in valuing pension liability

Valuation date

Actuarial valuations were completed for the Legislative Assembly and Judges' plans as of April 1, 2008. As the actuarial valuations were not valued as at the year-end, the Legislative Assembly plans were extrapolated to January 31, 2010 and the Judges' plans were extrapolated to March 31, 2010. An actuarial valuation was completed for the Judges' plans as of April 1, 2010. The effective date of the next actuarial valuation for the Legislative Assembly plans is April 1, 2011. The most recent actuarial valuation for the Retirement Plan for Employees of the Hay River Health and Social Services Authority was completed as at January 1, 2009.

Liability valuation method

The actuarial valuations were performed using the projected accrued benefit method. The valuations are based on a number of actuarial assumptions about matters such as mortality, service, withdrawal, earnings and interest rates. The assumptions are based on the Government's best estimates of expected long-term rates and short-term forecasts.

Asset valuation method

The asset valuation method, market-related value, for the MLA's plans is equal to a smoothed market value which spreads the difference between the actual and expected investment income over a four year period and is then adjusted for payments due to, and payable from, the pension plan. The fair market value of the MLA's regular plan is $19,259 (2009 - $18,230). The asset valuation method for the Judges' plans is market value. The market value of the regular Judges' plan is $3,987 (2009 - $3,859). The fair market value of the Retirement Plan for Employees of the Hay River Health and Social Services Authority is $17,912 (2009 - $14,012).

Actuarial gains and losses

Actuarial gains and losses occur when actual experience varies from estimates. The adjustments needed are amortized on a straight line basis over the estimated average remaining service lives of the contributors. The estimated average remaining service lives of the contributors is 5.0 years (2009 - 6.0 years) for the MLA's plans, 7.9 years (2009 - 9.8 years)for the Judges' plans, and 9.5 years (2009 - 8.4 years) for the Hay River Health and Social Services Authority plan.

Actuarial assumptions	Hay River H&SS Authority plan	MLA's plans	Judges' plans
Expected rate of return on plan assets	5.8%	6.0%	6.3%
Rate of compensation increase	2.8%	3.0%	3.5%
Annual inflation rate	2.3%	3.0%	3.0%
Discount rate	5.1%	6.0%	6.0%

Retirement assumptions

- Members of Legislative Assembly at later of age 50, 4 years of service, and end of current session.
- Judges at the earlier of age 60 or when age plus service equals 80.
- Employees of the Hay River H&SS Authority may retire early at age 50. Normal retirement is at age 65.

15. OTHER EMPLOYEE FUTURE BENEFITS

In addition to pension benefits, the Government of the Northwest Territories provides termination and removal benefits to its employees. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

	2010 $	2009 $
Resignation and retirement	30,617	29,996
Removal	14,720	12,600
	45,337	**42,596**

16. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions relate to the portion of a tangible capital asset that was gifted from or cost shared with the Government of Canada. The most significant of these assets are roads and airports. The capital contributions are deferred and amortized to revenue over the same life as the related asset. Deferred capital contributions are reported as a reduction in arriving at net tangible capital assets (*Schedule A*).

	2010 $	2009 $
Deferred capital contributions at beginning of year	274,968	273,324
Add: Assets gifted or cost shared during the year	49,512	20,006
Less: Amortization of capital contributions	(16,521)	(18,362)
Deferred capital contributions at end of year	**307,959**	**274,968**

17. TRUST ASSETS UNDER ADMINISTRATION

The Government administers trust assets on behalf of third parties, which are not included in the reported Government assets and liabilities. These consist of cash, term deposits, investments, real estate, and other sundry assets.

	2010 $	2009 $
Correctional institutions and other	340	211
Natural Resources - capital	299	315
Public Trustee	5,812	5,722
Territorial and Supreme Courts	1,900	727
Scholarship bequest - Beaufort Delta Divisional Education Council	246	238
Bequest - South Slave Divisional Education Council	80	80
	8,677	**7,293**

18. CONTRACTUAL OBLIGATIONS

The Government has entered into agreements for, or is contractually committed to, the following expenses payable subsequent to March 31, 2010:

	Expiry Date	2011 $	2012-2023 $	Total $
Block Funding Agreements with Municipalities	2011	54,910	-	54,910
Commercial and residential leases	2022	38,819	70,507	109,326
Equipment leases	2016	3,698	1,696	5,394
Operational commitments	2018	50,649	52,130	102,779
RCMP Policing Agreement	2013	33,110	33,586	66,696
Tangible capital asset projects in progress at year end	2015	213,061	106,773	319,834
		394,247	**264,692**	**658,939**

19.CONTINGENCIES

(a) Environmental liabilities

The Government has identified a number of sites as possibly requiring environmental remediation. The Government has recorded a liability of $20,919 (2009 - $21,520), excluding the Giant Mine site, for those sites where the Government is obligated, or is likely obligated to incur costs to remediate the sites and the amount is quantifiable. In 2005, the Government also recorded a liability for its share of the above ground remediation of Giant Mine. The balance of the Giant Mine remediation liability at March 31, 2010 is $20,302 (2009 -$20,379). As at March 31, 2010, total environmental liabilities of $41,221 (2009 - $41,899) were included as a component of accounts payable and accrued liabilities.

The Government's ongoing efforts to assess the remaining sites may result in additional environmental liabilities. These liabilities will be recorded in the year in which they become known.

(b) Guarantees

The Government has guaranteed residential housing loans to banks totaling $5,946 (2009 - $6,310) and indemnified Canada Mortgage and Housing for third party loans totaling $29,365 (2009 - $30,685). In addition, the Government has provided a guarantee to the Canadian Blood Agency and Canadian Blood Services to cover a share of potential claims made by users of the national blood supply. The Government's percentage is limited to the ratio of the Northwest Territories' population to the Canadian population.

The Northwest Territories Business Development and Investment Corporation (BDIC) has three outstanding loans to two northern Community Futures organizations totalling $1,047 (2009 - $1,109). Loans provided by these two organizations from these amounts that later become impaired may be assigned to the BDIC. During the year, one loan in the amount of $62 was assigned to the BDIC.

19. CONTINGENCIES (continued)

(c) Claims and litigation

There are a number of claims and pending and threatened litigation cases outstanding against the Government. In certain of these cases, pursuant to agreements negotiated prior to the division of the territories, the Governments of the Northwest Territories and Nunavut will jointly defend the suits. The cost of defending these actions and any damages that may eventually be awarded will be shared by the two Governments 56.66% and 44.34%, respectively. The Government has recorded an allowance for any claim or litigation where it is likely that there will be a future payment and a reasonable estimate of the loss can be made. At year end, the Government estimated the total claimed amount for which the outcome is not determinable has been estimated at $8,810 (2009 - $6,830). No provision for such claims has been made in these financial statements as it is not determinable, that any future event will confirm that a liability has been incurred as at March 31.

20. EXPENSES

	2010 $	2009 $
Expenses by Object:		
Grants and contributions	199,825	218,952
Operations and maintenance	544,205	526,774
Compensation and benefits	621,274	587,858
Valuation allowances	3,919	145
Amortization of tangible capital assets *(schedule A)*	74,230	69,353
	1,443,453	**1,403,082**

20. EXPENSES (continued)

Expenses of various Government departments, its territorial corporations and other public agencies are aggregated in the Statement of Operations as follows:

Environment and economic development	Department of Environment and Natural Resources Department of Industry, Tourism and Investment NWT Business Development and Investment Corporation Northwest Territories Opportunities Fund
Infrastructure	Department of Public Works and Services Department of Municipal and Community Affairs Department of Transportation Deh Cho Bridge Corporation Ltd.
Education	Department of Education, Culture and Employment Aurora College All Divisional Education Councils in the NWT All District Education Authorities in the NWT Tlicho Community Services Agency (education portion)
Health, social services and housing	Department of Health and Social Services All Health and Social Services Authorities in the NWT Tlicho Community Services Agency (health portion) NWT Housing Corporation
Justice	Department of Justice
General government	Department of Aboriginal Affairs and Intergovernmental Relations Department of Executive Department of Finance Department of Human Resources
Legislative Assembly and statutory offices	Legislative Assembly NWT Human Rights Commission NWT Status of Women Council

21. RELATED PARTIES

Significant transactions with related parties and balances at year-end are disclosed separately in the financial statements and notes thereto.

22. FAIR VALUE

The fair value of short-term financial instruments, including cash, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate the carrying amounts due to their short terms to maturity.

The carrying value, at the lower of cost or net recoverable value, is estimated to be the fair value of loans receivable due to the nature of these loans. The carrying value of the loans receivable should not be seen as the realizable value on immediate settlement of these loans due to the uncertainty associated with such a settlement.

The fair value, and the methods of calculation and assumptions used, for the Government's other long-term financial instruments are as detailed below:

	2010		2009	
	Carrying Amount $	Fair Value $	Carrying Amount $	Fair Value $
Portfolio investments	60,673	60,562	45,044	41,763
Due to the Government of Canada	185,854	180,898	143,689	137,768
Capital lease obligations	12,173	14,819	13,767	17,279
Long-term debt	333,983	332,435	318,655	319,773

The fair value of publicly traded investments is based on quoted market prices. The estimated fair value for due to the Government of Canada, capital lease obligations and long-term debt is calculated by discounting the expected future cash flows at year-end using market interest rates for equivalent terms to maturity.

Long-term debt of the Deh Cho Bridge Corporation Ltd. bond issue of $165,439 is protected by a fixed-to-variable interest rate swap with a fair market value of $646 (2009 - $2,430). The swap contract matured on November 1, 2010.

23. SUBSEQUENT EVENTS

On April 1, 2010, the Government terminated the Concession Agreement with the Deh Cho Bridge Corporation Ltd. (DCBC) and assumed control over the Deh Cho Bridge project. As a result of the termination of the Concession Agreement, the Government acquired certain assets and assumed certain liabilities of DCBC related to the project. The assets acquired and liabilities assumed by the Government on April 1, 2010 are summarized below.

	$
Assets acquired	
Cash	2,106
Restricted cash and investments	93,978
Goods and services tax receivable	1,088
Prepaid expenses	735
Interest Rate Swap asset	646
Accounts receivable	44
Work in progress - Deh Cho Bridge project	98,287
	196,884
Liabilities assumed	
Accounts payable and accrued liabilities	15,656
Deferred capital contributions	17,249
Long term debt	165,439
	198,344

23. SUBSEQUENT EVENTS (continued)

During the year, the DCBC terminated its construction contract with its primary contractor. As a result, a claim have been made on behalf of the primary contractor against DCBC, and the DCBC is considering claims against the primary contractor. The outcome of the claims is not determinable and no provision has been recognized in the financial statements.

The DCBC also terminated the services of the project developer and project engineer. Both individuals filed claims for additional compensation plus legal costs and interest for their services rendered. Subsequent to year end, these latter two claims were settled. No amount has been accrued in these financial statements for these two claims.

Under the terms of the Letter Agreement, signed in June 2010, between the Government and the DCBC in connection with the termination of the Concession Agreement, the DCBC assigned all of its interest in an irrevocable standby letter of credit (LOC), issued by the Bank of Nova Scotia, to the Government in order to fully protect the project. The Government also had independent rights under the LOC.

On August 13, 2010, the Bank of Nova Scotia advised the Government that it was exercising its right not to renew the LOC and the LOC would expire on November 1, 2010. To fully protect its interests and to be able to remedy any outstanding deficiencies related to the first year of construction conducted by Atcon Construction Inc. (Atcon) on the bridge, on October 27, 2010, the Government entered into an agreement with the Government of New Brunswick (GNB) to receive full payment of $13,363 that was guaranteed by the GNB under the LOC. Payment of $13,363 was received by the Government on October 28, 2010. These funds are to be used solely for the payment of expenses related to investigating and remediating construction deficiencies for work that was done under the responsibility of Atcon. Any unspent funds must be returned to the GNB. A comprehensive remediation action plan and related costing is currently being developed.

24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

Government of the Northwest Territories

Schedule A

Consolidated Schedule of Tangible Capital Assets

for the year ended March 31,

(All figures in thousands of dollars)

	Land	Buildings [1]	Other [2]	Leasehold Improvements	Equipment	Computers	2010	2009
	$	$	$	$	$	$	$	$
Cost of tangible capital assets, opening	4,722	1,038,916	857,973	28,924	142,186	49,310	2,122,031	2,057,850
Acquisitions	2,817	85,406	84,670	1,539	18,221	25,660	218,313	136,422
Disposals	(83)	(5,842)	(188)	-	(454)	(400)	(6,967)	(72,241)
Cost of tangible capital assets, closing	7,456	1,118,480	942,455	30,463	159,953	74,570	2,333,377	2,122,031
Accumulated amortization, opening	-	(407,283)	(331,762)	(20,924)	(71,237)	(31,409)	(862,615)	(827,116)
Amortization expense	-	(34,376)	(24,776)	(1,514)	(7,724)	(5,840)	(74,230)	(69,353)
Disposals and write-downs	-	3,058	188	-	437	319	4,003	33,855
Accumulated amortization, closing	-	(438,601)	(356,350)	(22,438)	(78,524)	(36,930)	(932,842)	(862,614)
Net book value	**7,456**	**679,879**	**586,105**	**8,025**	**81,429**	**37,640**	**1,400,535**	**1,259,417**
Work in Progress [3]							264,197	204,576
Deferred capital contributions *(note 16)*							(307,959)	(274,968)
							1,356,773	**1,189,025**

1 Included in buildings are assets under capital lease (cost, $39,844; accumulated amortization, $17,500; net book value, $22,344).
2 Includes roads, bridges, airstrips, aprons, and water/sewer works
3 Deh Cho Bridge includes capitalized current year interest cost of $11,299 (2009 -$5,917), that was reduced by interest revenues of $8,820 (2009 -$5,438)

Government of the Northwest Territories

Schedule B

Consolidated Schedule of Segmented Information

for the year ended March 31, (All figures in thousands of dollars)

	Departments	Government Business Enterprises [1]	Other Public Agencies	Total for All Segments	Adjustments [2]	2010	2009
	$	$	$	$	$	$	$
Revenues							
Grant from the Government of Canada	864,161	-	-	864,161	-	864,161	804,858
Transfer payments	121,169	-	25,385	146,554	(469)	146,085	135,450
	985,330	-	25,385	1,010,715	(469)	1,010,246	940,308
Taxation and general revenues							
Corporate and personal income taxes	116,798	-	-	116,798	-	116,798	139,993
Other taxes	93,222	-	8,784	102,006	-	102,006	101,827
General	16,897	4,206	530,786	551,889	(498,248)	53,641	70,551
Sales [3]	23,466	87,808	1,187	112,461	(41,064)	71,397	80,049
Recoveries and amortization of capital contributions	47,958	-	41,464	89,422	(41,553)	47,869	50,127
	298,341	92,014	582,221	972,576	(580,865)	391,711	442,547
Recoveries of prior years' expenses	9,826	-	-	9,826	3,785	13,611	7,854
	1,293,497	92,014	607,606	1,993,117	(577,549)	1,415,568	1,390,709
Expenses							
Grants and contributions	682,835	-	10,613	693,448	(493,623)	199,825	218,952
Operations and maintenance	333,645	50,269	201,322	585,236	(41,031)	544,205	526,774
Compensation and benefits	256,447	20,279	365,738	642,464	(21,190)	621,274	587,858
Valuation allowances	5,379	-	(1,461)	3,918	1	3,919	145
Amortization of tangible capital assets	59,497	14,146	14,707	88,350	(14,120)	74,230	69,353
	1,337,803	84,694	590,919	2,013,416	(569,963)	1,443,453	1,403,082
Annual operating surplus (deficit)	(44,306)	7,320	16,687	(20,299)	(7,586)	(27,885)	(12,373)
Net income from investment in Government Business Enterprise - Northwest Territories Hydro Corporation					7,320	7,320	3,767
Projects on behalf of third parties							
Expenses	(69,677)			(69,677)		(69,677)	(57,631)
Recoveries	69,677	-	-	69,677	-	69,677	57,631
Annual surplus (deficit)	(44,306)	7,320	16,687	(20,299)	(266)	(20,565)	(8,606)

1 The Northwest Territories Hydro Corporation is the only Government Business Enterprise for financial reporting purposes.

2 Includes adjustments to remove the effect of Government Business Enterprises accounted on the modified equity basis and entries to eliminate inter-entity balances to comply with generally accepted accounting principles of consolidated financial statements; for example, contributions by departments to boards and agencies are shown under Grant and contributions expense under the "Departments" column. The amounts received by the applicable board or agency (e.g. Health and Social Services Authority, Divisional Education Council) are shown under General revenue in the "Other Public Agencies" column. These amounts are eliminated upon consolidation to avoid double counting and result in significant amounts shown in the "Adjustments" column.

3 To conform with the appropriation process, departments' sales are shown as net of cost of sales and are converted to gross sales for consolidation purposes (via adjustments).

GOVERNMENT OF THE NORTHWEST TERRITORIES
GOVERNMENT INDICATORS
FOR THE YEAR ENDED MARCH 31, 2010
(Unaudited)

HONOURABLE J. MICHAEL MILTENBERGER
Minister of Finance

This page intentionally left blank

Table of Contents

	Page
INTRODUCTION	5
GROSS DOMESTIC PRODUCT	6
LONG-TERM DEBT BORROWING CAPACITY	8
DEBT PER CAPITA	9
FINANCIAL POSITION	10
TANGIBLE CAPITAL ASSETS	13
ANNUAL SURPLUS (DEFICIT) AND NET FINANCIAL RESOURCES (DEBT)	16
REVENUES AND EXPENSES	18
REVENUES BY SOURCE	19
EXPENSES BY OBJECT	21
EXPENSES BY PROGRAM	22
REVENUE AND INTEREST EXPENSE	22
CONCLUSION	24
ADDITIONAL SOURCES OF INFORMATION	25

This page intentionally left blank

INTRODUCTION

The Public Accounts report the financial position and results of operations of the Government for a fiscal year. The Statement of Financial Position discloses the assets, liabilities, accumulated surplus or deficit, as well as the net debt or net financial resource position of the Government. The financial position of the Government is measured at a specific point in time (March 31 fiscal year end), whereas information relating to revenues and expenses encompasses the results for a fiscal year as disclosed in the Statement of Operations. It is important to note that the financial position of a Government is often quite different from the financial condition of the economy.

A research study conducted by the Canadian Institute of Chartered Accountants states:

The financial health of a Government is its financial health as measured by sustainability, vulnerability and flexibility, looked at in the context of the overall economic and financial environment. These terms are defined as follows:

- *Sustainability: the degree to which a Government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.*
- *Flexibility: the degree to which a Government can increase its financial resources to respond to rising commitments, by either expanding its revenues, or increasing its debt burden.*
- *Vulnerability: the degree to which a Government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.*

The information provided in the following pages is intended to assist readers of the Public Accounts in their assessment of the Government's financial health. It is important to note that the information contained within the Consolidated Financial Statements (Public Accounts – Section I) includes all Government-controlled organizations. Organizations included in the Government Reporting Entity are listed in Note 1 to the Consolidated Financial Statements.

GROSS DOMESTIC PRODUCT

Gross Domestic Product (GDP) represents the total unduplicated value of goods and services produced within the geographical boundaries of a country, province or territory, regardless of whether the factors of production involved are resident or non-resident. GDP is typically measured in two ways: as total income earned in current production (income-based); and, as total final demand of current production (expenditure-based). Both methods yield the same estimate of GDP. Estimates of GDP are typically expressed at market prices, which includes the impact of taxes and subsidies in the estimate.

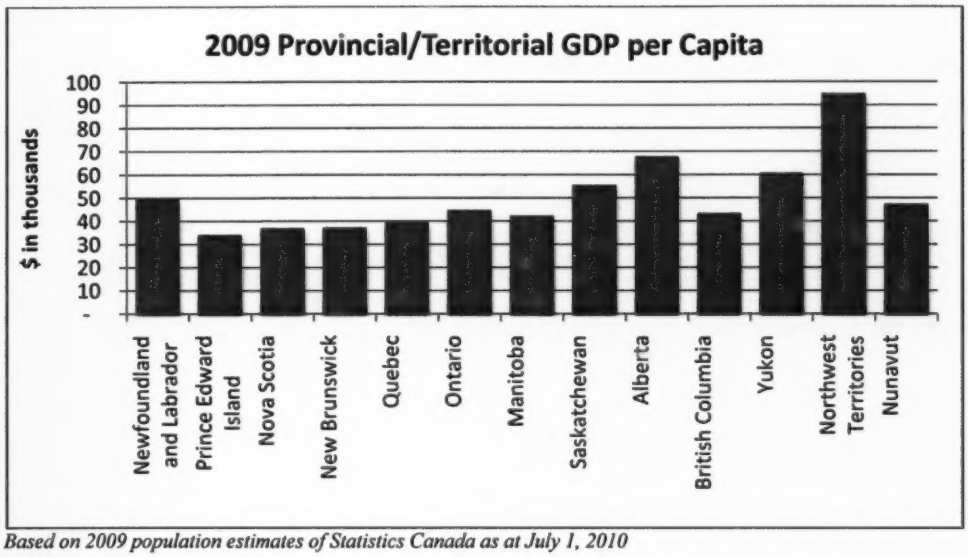
For the Northwest Territories (NWT), Statistics Canada estimates current dollar GDP at market prices at $4,124 million for 2009, which represents a 17.5% decrease relative to the 2008 estimate of $4,997 million.

Gross Domestic Product at Market Prices, calendar years 2008 and 2009
Canada, Provinces and Territories
Current Dollars ($ in millions)

	2009	2008	Percent Increase/(decrease)
Canada	1,527,258	1,599,608	(4.5)
Alberta	247,184	291,577	(15.2)
British Columbia	191,006	197,728	(3.4)
Manitoba	50,973	51,048	(0.1)
New Brunswick	27,497	27,376	0.4
Newfoundland and Labrador	24,970	31,671	(21.2)
Northwest Territories	4,124	4,997	(17.5)
Nova Scotia	34,283	34,041	0.7
Nunavut	1,506	1,521	(1.0)
Ontario	578,183	584,460	(1.1)
Prince Edward Island	4,750	4,650	2.2
Quebec	303,747	302,748	0.3
Saskatchewan	56,553	65,425	(13.6)
Yukon	2,026	1,934	4.8

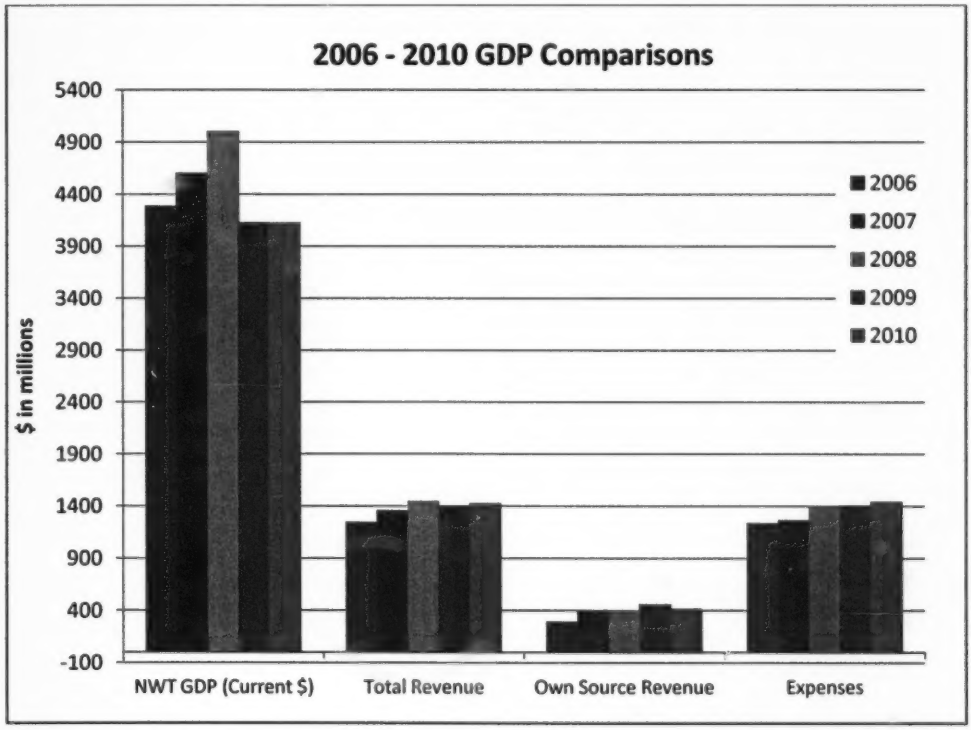
Source: Statistics Canada

GROSS DOMESTIC PRODUCT (continued)



Based on 2009 population estimates of Statistics Canada as at July 1, 2010

The NWT still has the highest GDP per capita in Canada. This is an important indicator to note when considering GDP statistics.

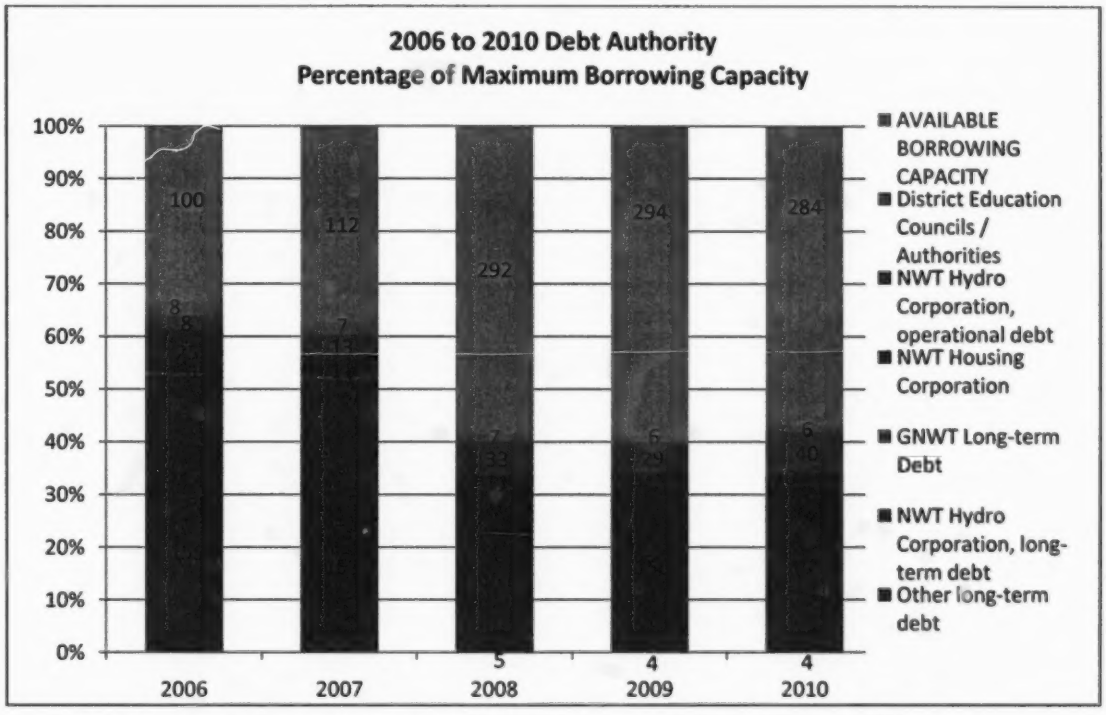


** NWT GDP is based on a calendar year, while the balance of the information is based on the following March 31 fiscal year-ends. The 2009 figure for NWT GDP has been used for 2010 illustration purposes. Net income from the NWT Hydro Corporation and recoveries are included in GNWT own source revenues.*

LONG-TERM DEBT BORROWING CAPACITY

Canada, pursuant to subsection 20(2) of the *Northwest Territories Act,* has approved Government borrowing up to $500 million. Prior to March 31, 2007, the borrowing limit was $300 million.

Consolidated debt, for purposes of the borrowing limit, includes the debts of all Government entities that are consolidated; however, debts of the NWT Opportunities Fund, and the Deh Cho Bridge Corporation Ltd. are excluded from calculations related to the Government's borrowing limit. The borrowings of the Northwest Territories Hydro Corporation (NTHC), while included in the calculation, are serviced through revenues generated by the NTHC, and therefore do not require the Government to fund the related interest expense or principal repayment.



Prior to 2009, the borrowing limit was $300 million. After 2008, the borrowing limit was increased to $500 million.

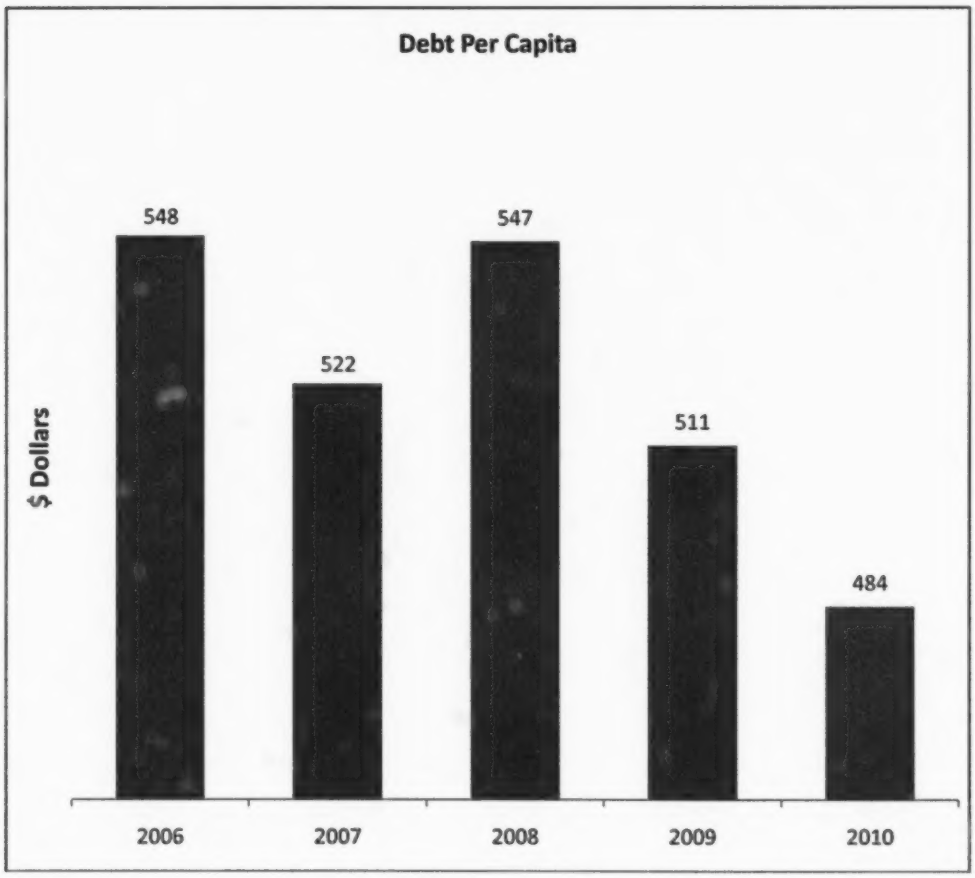
The debt level will likely continue to increase over time given that the Government has implemented a Fiscal Responsibility Policy (see page 15) to allow it to address current infrastructure needs. In anticipation of increasing the Government's debt instruments the Government has obtained a credit rating of Aa1 from Moody's Investors Service.

Subsequent to year end, the Government's borrowing limit was temporarily increased to $575 million by Order in Council P.C. 2010-0555, dated April 29, 2010, until March 31, 2015.
On April 1, 2015, the Government's borrowing limit will return to $500 million.

DEBT PER CAPITA

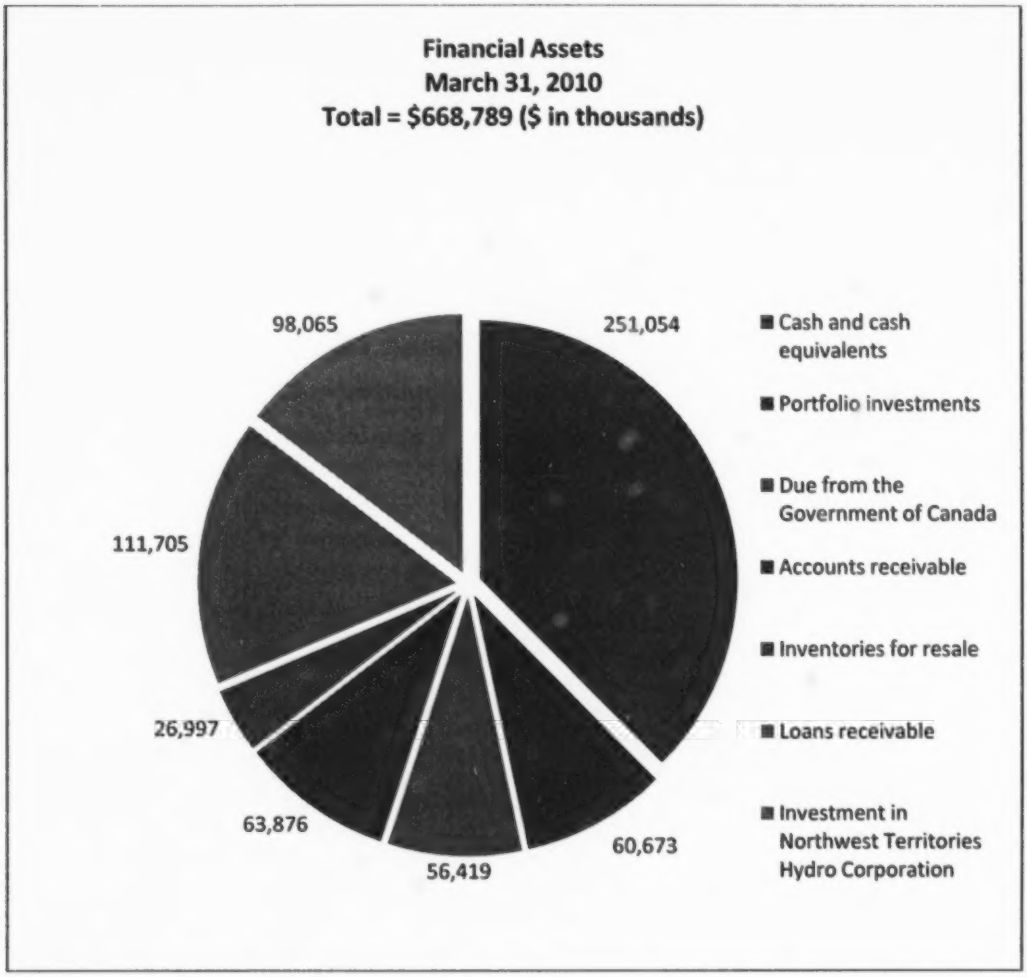
The following chart depicts the debt per capita with respect to the entire debt load that the GNWT is directly responsible for. This debt is comprised of short and long-term borrowing, but excludes the borrowings of the NWT Opportunity Fund, the NWT Hydro Corporation and the Deh Cho Bridge Corporation Ltd.

At March 31, 2010, long-term debt was $21.1 million (2009 - $22.3 million), with no short-term borrowings. Due to the time lag between the preparation of the Government's financial statements and the available statistical information from Statistics Canada, Debt per Capita figures for the 2010 fiscal year are not included in the graph below. The Government's long-term debt amount is expected to increase by $165.4 million for the March 31, 2011 fiscal year. This is due to the increase in capital investment of the Government for the Deh Cho Bridge, resulting in an increase in 2011.



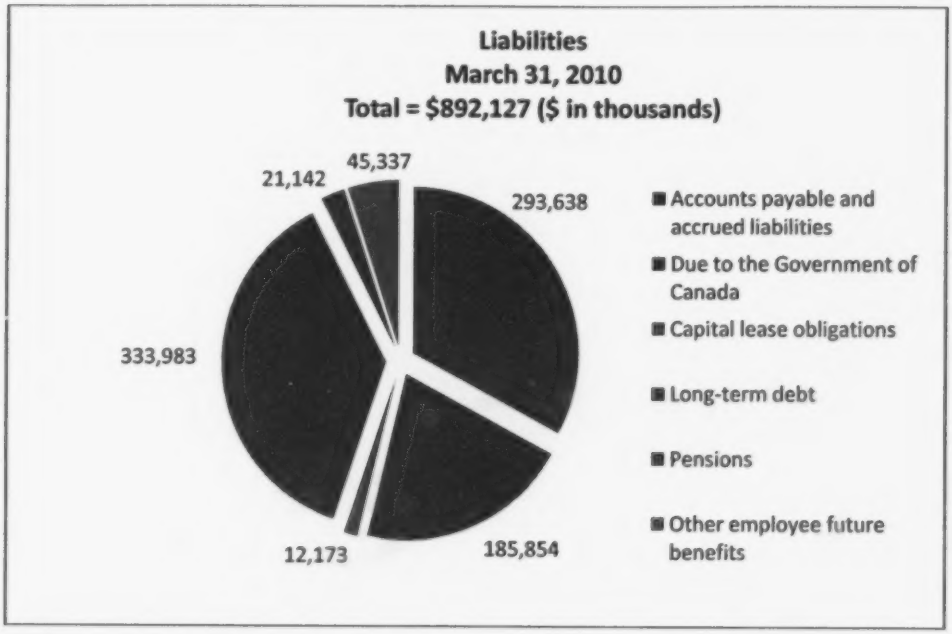
2010 and 2009 amounts per capita are based on 2009 population estimates of Statistics Canada as at July 1, 2010

FINANCIAL POSITION



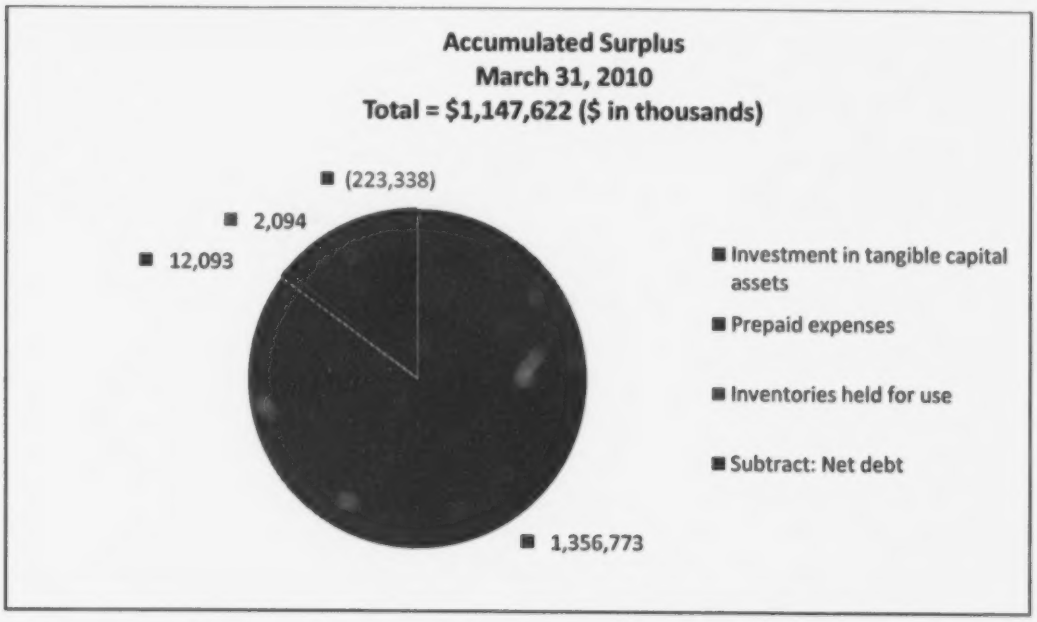
The above graph illustrates the composition of the Government's financial assets.

FINANCIAL POSITION (Continued)



The above graph illustrates the composition of the Government's liabilities.

FINANCIAL POSITION (continued)

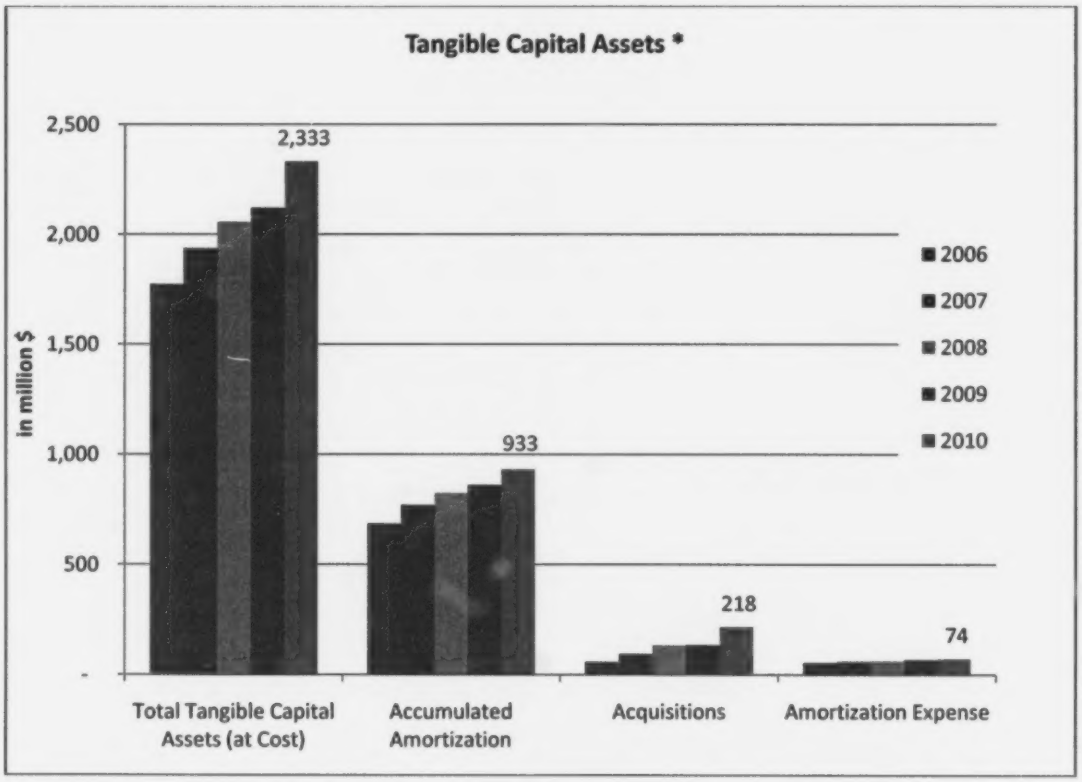


The Government is in a net debt position. This negative amount is subtracted from the Government's investment in tangible capital assets to produce the accumulated surplus balance at the end of the year. The Government would only move to an accumulated deficit if the net debt position of the Government grew over time to the point where it exceeded the total investment in tangible capital assets. An important measure of the flexibility of a Government is the level of financial assets available to meet current and future obligations, as well as to absorb any budgeted annual deficit. A net debt, or net financial resource, position is not a direct reflection of cash available, but rather an indication of sources where cash will or will not become available to meet current and future obligations.

TANGIBLE CAPITAL ASSETS

Tangible capital assets include assets purchased directly by the Government and assets that were fully or partially contributed to the GNWT by Canada or other parties.

The GNWT records tangible capital assets as non-financial assets on its Statement of Financial Position within the Public Accounts. Under this policy, existing assets are capitalized and then expensed as amortization in the financial statements of the Government based on their average useful life.

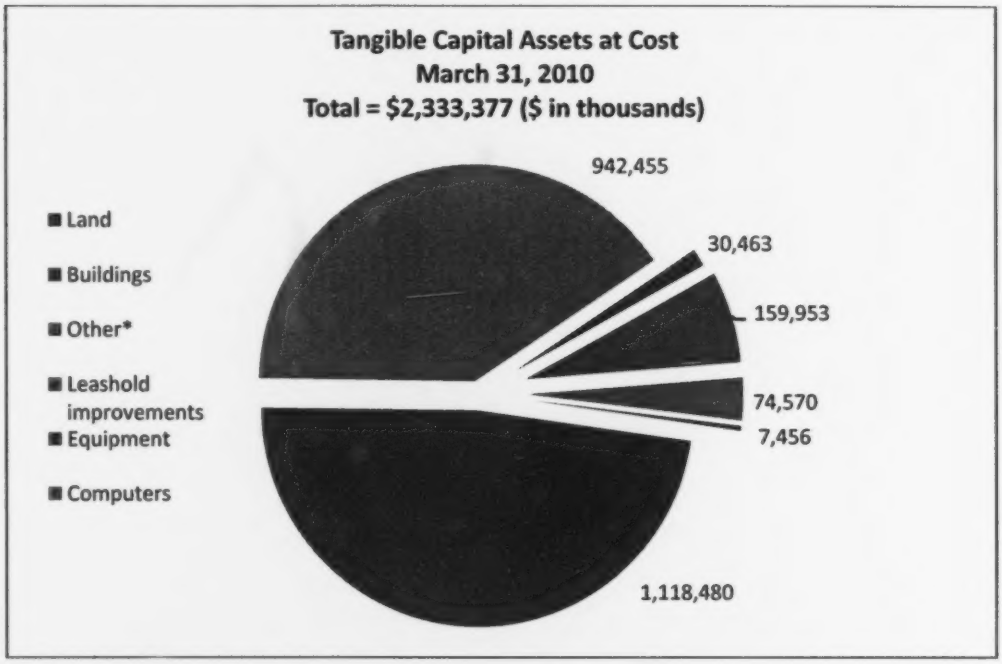


** Tangible capital assets (at cost) do not include any adjustments for Deferred Capital Contributions. For further details regarding tangible capital assets, please refer to Schedule A to the Consolidated Financial Statements in Section I of the Public Accounts for the year ended March 31, 2010.*

The Government must plan its capital expenditures to ensure that existing tangible capital assets are replaced or expanded in a timely manner in conjunction with the Government's direction, priorities and fiscal strategy.

The Government will continue to invest in the replacement and maintenance of its tangible capital assets at a rate that, over time, approximates the rate at which assets are being consumed, but within the Government's fiscal capacity. In short, tangible capital asset investments must be planned to address the continued health and safety of NWT residents, the extension of the useful life of existing assets, and provide for program growth.

TANGIBLE CAPITAL ASSETS (continued)



** Includes roads, bridges, airstrips, aprons and water/sewer works*

The GNWT is currently investing in tangible capital assets at a level that represents between 50% and 60% of the estimated investment needed for replacement and growth. In the 2010 fiscal year, the Government spent $218 million to acquire or construct tangible capital assets (2009 - $136 million). For the 2011 fiscal year, the latest Revised Estimate for spending on tangible capital assets is $454 million.

The NWT requires a significant investment in infrastructure. To ensure ongoing fiscal sustainability, but still allow for necessary investments required to address high priority infrastructure needs, the Government introduced the *Fiscal Responsibility Policy*, effective April 1, 2005. This Policy establishes an ongoing approach to finance the Government's infrastructure investments and requires that at least 50% of the Government's annual infrastructure investment be financed by cash generated from operations. A maximum of 50% of the annual infrastructure investment may be financed by debt. This requires the Government to plan for, budget, and realize sufficient operating surpluses on an ongoing basis to finance 50% of capital investments as well as meet debt servicing payments on the amounts borrowed.

The Policy makes the Government accountable for its level of borrowing with the establishment of performance criteria for debt management that ensure the total debt of the Government does not exceed the capacity of the Government to repay the debt as it becomes due.

TANGIBLE CAPITAL ASSETS (continued)

The debt management criteria include the following:

i) Ratio: Government Debt to Revenue

This ratio is an indicator of the increase in debt in proportion to the increase in revenue, where *decreasing* ratios are a positive indicator that the rate of increase in revenue is greater than the rate of increase in debt.

From year to year, the ratio of total Government debt, excluding guaranteed debt, compared to non-consolidated revenue, in relation to provinces *shall be in the lowest 4*.

ii) Ratio: Debt per Capita

This ratio is a measure of the debt burden, on a per person basis, where a *decreasing* ratio is a positive indicator of a decreasing debt burden.

From year to year, the total debt per capita ratio, compared to provinces *shall be in the lowest 5*.

iii) Debt Servicing Costs (interest), as a % of Revenue

This ratio is a measure of the extent that Government revenues are being applied to debt charges, rather than to programs and services, or tax reduction.

From year to year, debt servicing costs on Government debt, excluding amounts paid by Public Agencies, as a % of non-consolidated revenue, compared to other provinces and territories *shall be in the lowest 4*.

iv) Debt Servicing Payments, as a % of Revenue

This is a measure of the extent that Government revenues are being applied to debt charges and debt repayment, rather than on programs and services or to reducing taxes.

From year to year, payments on Government debt, excluding Public Agency debt service payments, as a percentage of non-consolidated revenue *shall not exceed 5% of revenue*.

v) Debt Servicing Payments as a % of 3-year moving GDP average

This ratio is a measure of debt growth in relation to economic growth, where ideally, economic growth exceeds the growth rate of public debt. A *decreasing* ratio reflects a consistent improvement in financial position.

Given the volatility of GDP in the NWT, a 3-year moving average GDP shall be used.

From year to year, debt-servicing payments, excluding Public Agency debt, as a % of the 3-year moving GDP average, compared to debt servicing payments of provinces *shall be in the lowest 4*.

vi) Net Debt per Capita

Net debt is the excess of liabilities over financial assets.

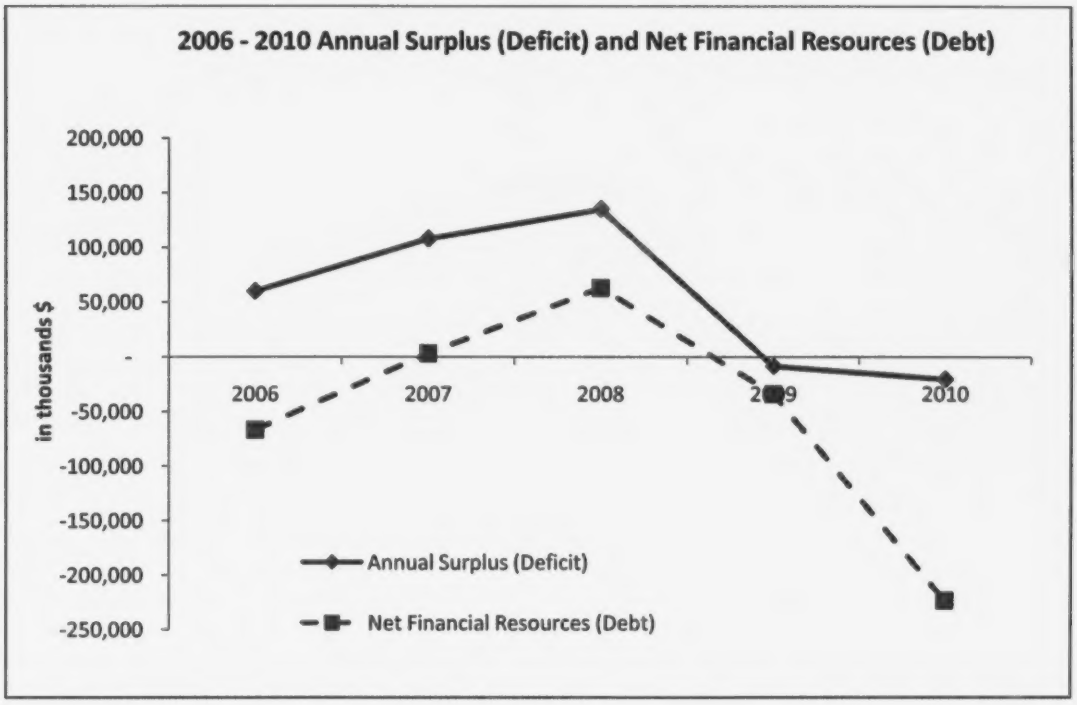
From year to year, non-consolidated net debt per capita, compared to provinces *shall be in the lowest 5*.

The GNWT policy on borrowing and performance measurement criteria, for management of debt, will be reviewed and updated annually. Annual reports shall be tabled in the Legislative Assembly.

ANNUAL SURPLUS (DEFICIT) AND NET FINANCIAL RESOURCES (DEBT)

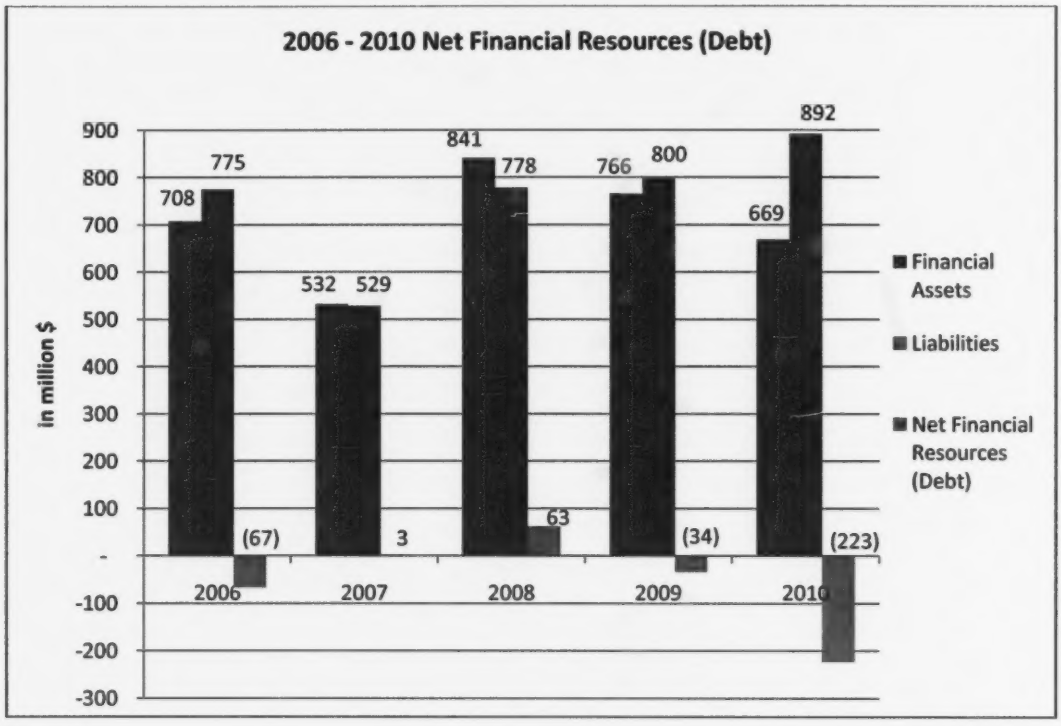
Net financial resources are the financial resources remaining after being reduced by all liabilities of the Government. Net debt results when there is an excess of liabilities over financial assets. The Government is in a net debt position; liabilities exceeded assets at the fiscal year end. Over the years, the Government's net financial resources (debt) have fluctuated with the annual surplus. This is graphically depicted below.

The increase in net debt in the 2010 fiscal year is largely due a significant amount of investment in tangible capital assets of $218.3 million in the year (2009 - $136.4 million). Amounts spent on tangible capital assets do not affect the net debt position of the Government; however, the corresponding decrease in cash and other financial assets used to make such investments results in an increase in net debt. For this reason, net debt is expected to increase in the next two fiscal years until capital investment returns to more historical levels starting in fiscal year 2013.



Net Financial Resources (Debt)

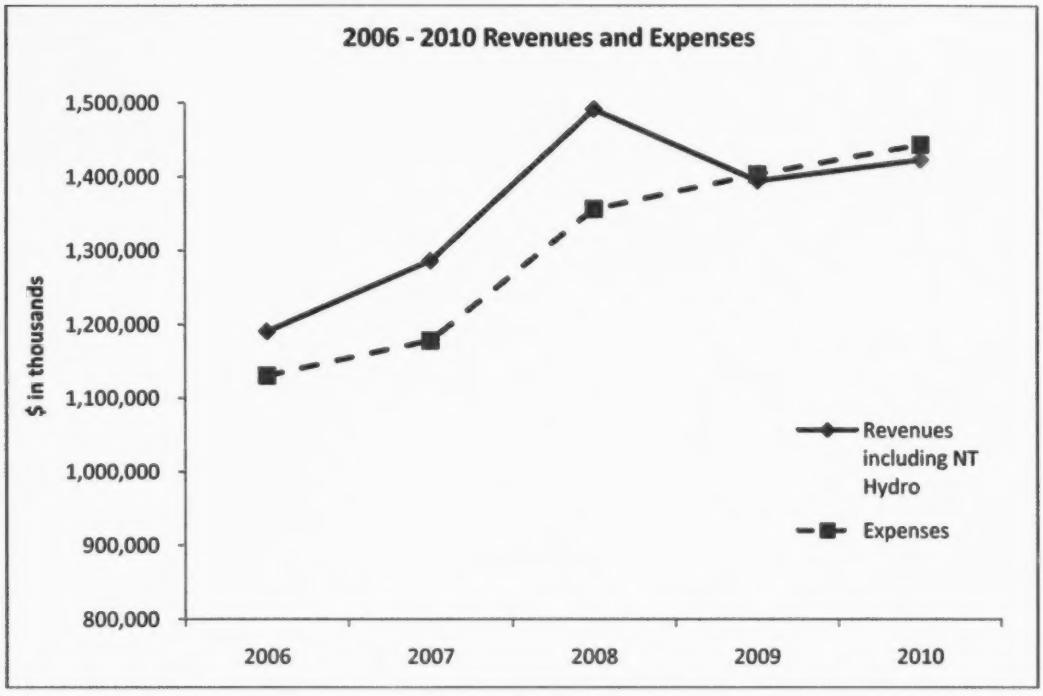
The graph below illustrates the Government's net financial resources (debt) position at the end of each of the last five fiscal years.



Net financial resources (debt) are a good indicator of a Government's ability to meet its existing financial obligations.

Ongoing discussions with Canada regarding revenue sharing may result in additional financial resources in the medium to long term; however, in the interim, the Government may have to fund tangible capital assets with debt and this will impact our net financial position as discussed previously. With so many variables in the calculation of our net financial position, a prediction of an increase or decrease in our net financial resources cannot be made without an in-depth analysis. Net financial resources (debt) are affected by dramatic changes in revenues or expenses. Long-term debt will increase and our net financial resource position will deteriorate if revenues do not keep pace with, or exceed, the cost of Government operations.

REVENUES AND EXPENSES



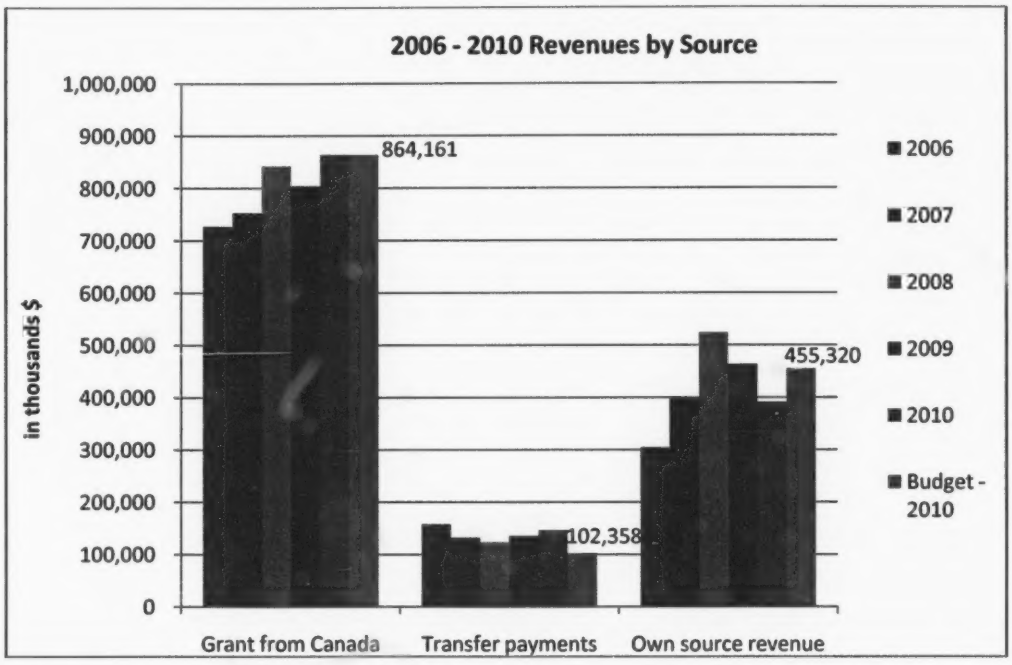
** Revenues depicted above include recoveries of prior year expenditures and net income of the NWT Hydro Corporation.*

The GNWT funds government programs and services through a combination of transfers from the federal government and own-source revenues. In order to assess the long-term sustainability of the present level of services, various key indicators are monitored on an ongoing basis, including the following:

- Growth rates of revenues and expenditures;
- Changes in the net debt ratio; and
- Impacts of one-time (or non-recurring) events.

The most significant factor that contributes to revenues being more unpredictable than expenses in any given year is the volatility in corporate income tax. Until March 2004, the Grant from Canada was adjusted for fluctuations in our own-source revenues in the same year. Since April 1, 2007, the Grant from Canada has been calculated based on a three-year moving average of data that is lagged two years. As a result, changes in underlying variables, such as corporate income tax, do not lead to a corresponding impact (up or down) on the Grant from Canada until the second, third and fourth years following the year of the change to the input in question. For example, in a single year where corporate income taxes are unusually low, any resulting increase to the Grant from Canada would be received in instalments of 33% of the deficiency in each of the following three years.

REVENUES BY SOURCE



** Own source revenues include both recoveries of prior year expenditures and the net income of NWT Hydro Corp.*

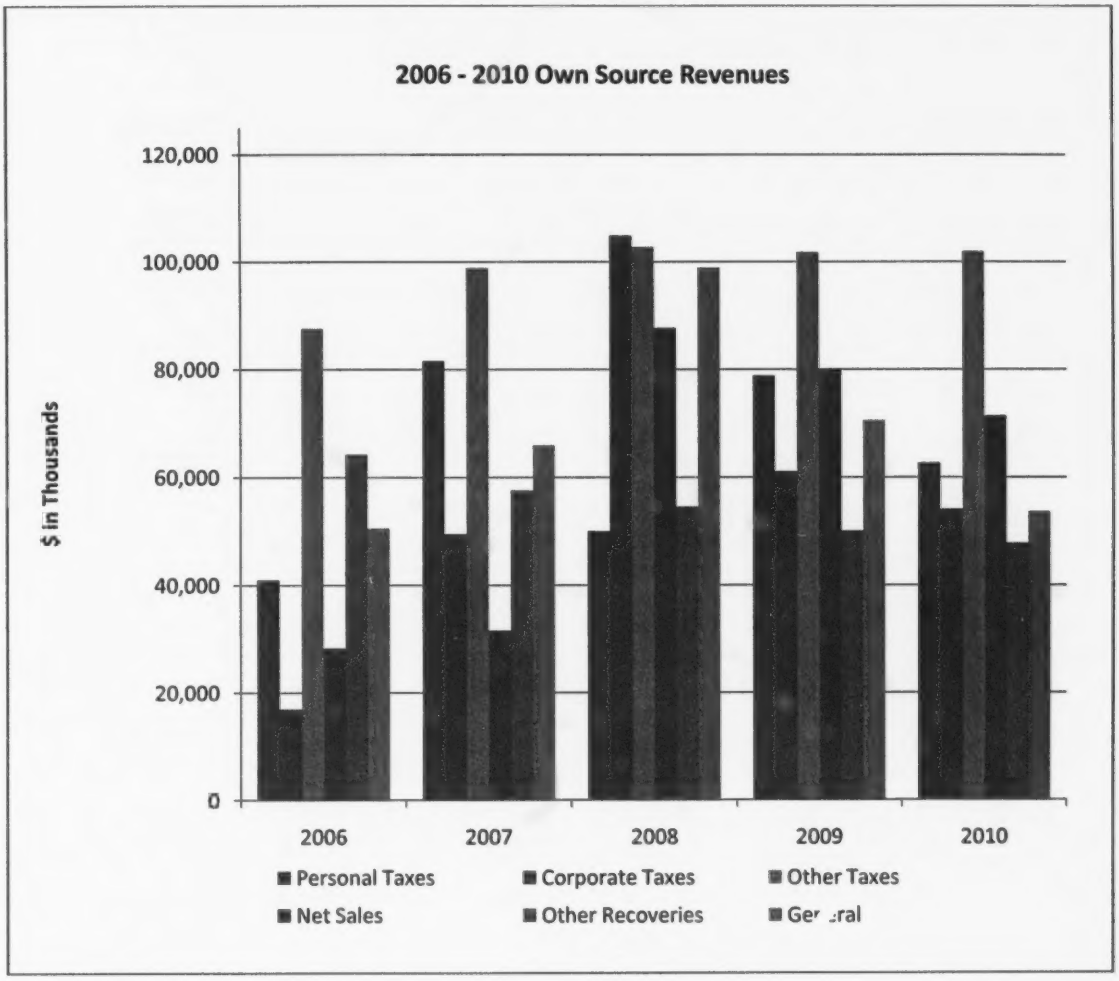
Since 2006, GNWT's revenues from the Formula Financing Grant from Canada increased slightly from 61% to 62%. Major own-source revenues, such as corporate and personal income tax, tobacco tax, fuel taxes, and payroll tax have increased from 26 to 28% of total revenues. Other transfer payments revenues are approximately 10% of total revenues. Although the NWT has a vast reserve of non-renewable resources, it does not currently share in the revenue produced by those resources (royalties, etc). The intended result of ongoing tri-party negotiations between Canada, the GNWT and NWT Aboriginal Governments is the sharing of those resource revenues.

In October 2004, the federal Government introduced a New Framework for Territorial Formula Financing (TFF), which resulted in the TFF Grants for 2004-2005 and 2005-2006 being set in federal legislation at a fixed amount, subsequently extended to 2006-2007. Starting in the 2007-2008 fiscal year, Grants from Canada have returned to an annual formula-based calculation whereby the NWT's Grant equals the difference between its Gross Expenditure Base (proxy for expenditure requirements) and a measure of revenue capacity known as Eligible Revenues.

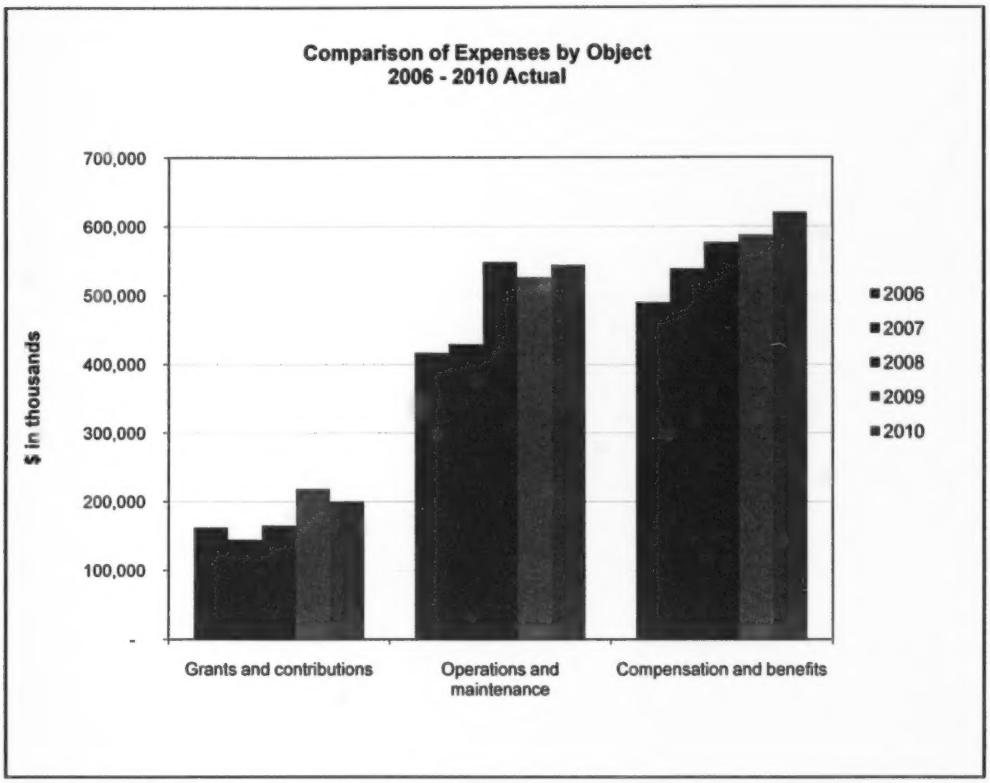
Under recent amendments to the *Federal-Provincial Fiscal Arrangements Act*, changes to income tax revenues in 2007-2008 will affect future Grant revenue and the Canada Health Transfer for 2007-2008 through 2010-2011, but will no longer affect the Canada Social Transfer. Changes in own-source revenue in the current fiscal year will not change the current fiscal year Grant. The change in the Grant now occurs in the second, third, and fourth years following a change in revenue.

REVENUES BY SOURCE (continued)

With the exception of Corporate Income Tax, other own-source revenues have proven to be fairly consistent over the years. Corporate Income Tax revenue is dependent upon a small base of significant taxpayers that accounts for the volatile nature of this tax revenue, so volatile that in 2003-2004 Corporate Income Tax revenue was a negative amount. Canada bases estimates of Corporate Income Tax on the latest actual prior year tax revenue information available; for example; 2008 estimates were based on 2006 actual collections.



EXPENSES BY OBJECT

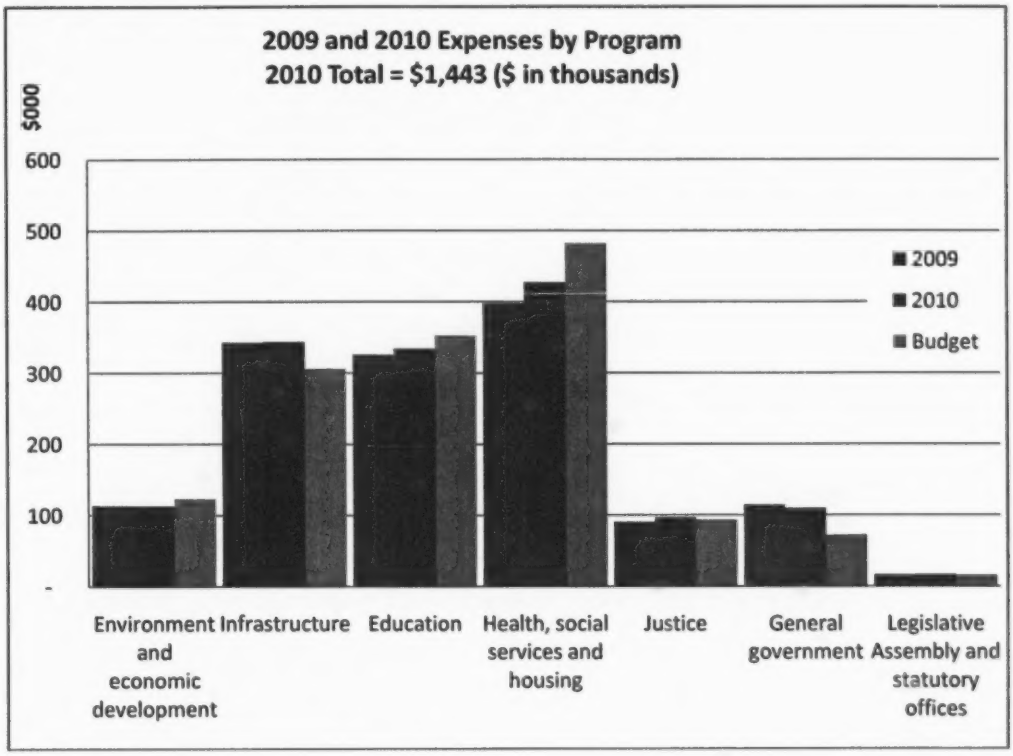


Amounts that are reported as *grants and contributions* in Section II of the Public Accounts are reported under the *operations and maintenance* and *compensation and benefits* categories in the above graph and in Section I of the Public Accounts. This classification does not change the way that these Government organizations are funded as many of our social and educational programs are funded by contributions. Many components of these funding agreements with boards and agencies are really fixed costs and as the major (or sole) provider of funds, the Government cannot vary the funding without affecting the level of output by these boards and agencies. In Section II of the Public Accounts, one can see that approximately 51% of the Government's total expenses flow as Grants and Contributions to third parties.

Additional types of fixed costs are long-term; such as, lease and other commitments which are disclosed in the notes to the consolidated financial statements (Public Accounts – Section I).

The Government is also vulnerable to inflation as it is an important factor when negotiating compensation and benefits. Not only are the direct wages of the Government vulnerable to this, but wage costs comprise a significant factor in determining the amount of grants and contributions given out to third parties, whether they are consolidated within the Public Accounts or not.

EXPENSES BY PROGRAM



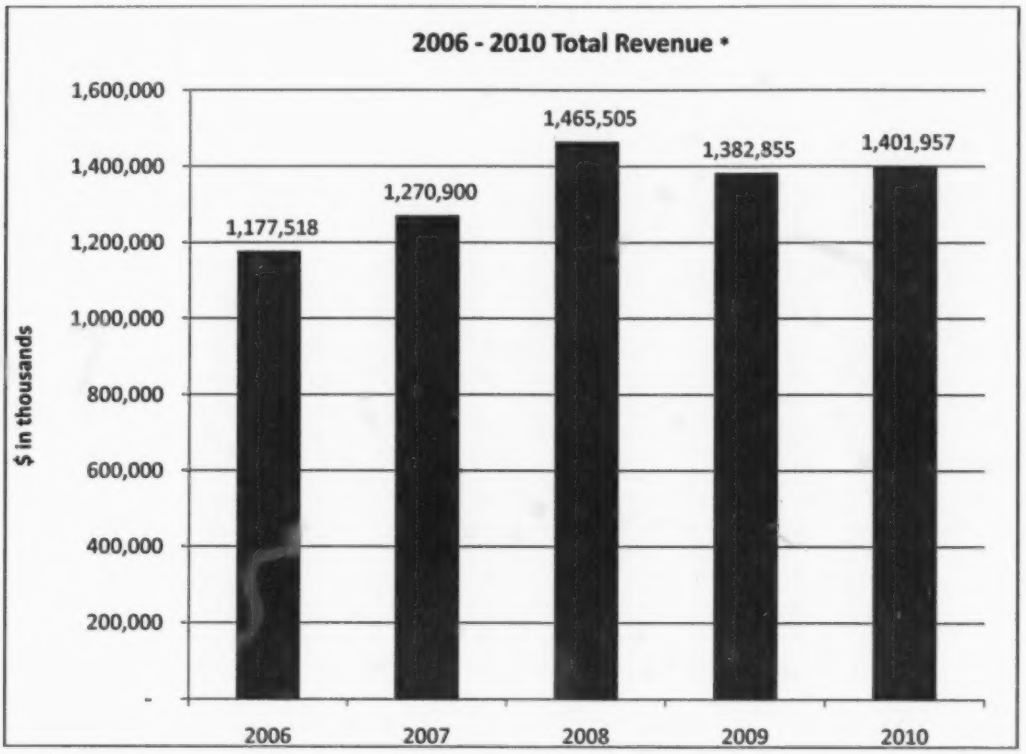
The Government spends the vast majority of its budget on social programs (education, health, support to community Governments, justice and housing), with the remaining budget allocated to infrastructure, natural resources and economic development. Any additional resources to improve a service often have to be made at the expense of other important needs. Balancing a budget entails not only controlling expenses but also finding the most effective and efficient mix of programs.

REVENUE AND INTEREST EXPENSE

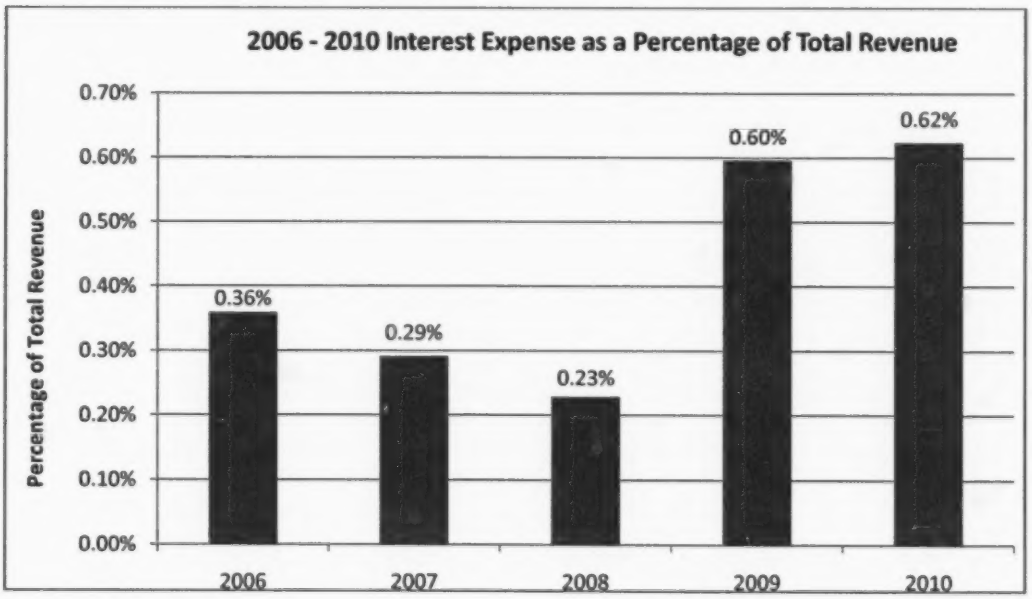
As shown in the graphs on the next page, the GNWT is in the enviable position of having to expend less than 1% of its total revenues to service its debt load, including interest paid to service the Deh Cho Bridge Corporation debt (started in 2009).

The Government's *Fiscal Responsibility Policy*, allowing for the purchase of tangible capital assets through the use of debt, requires the ratio cited above to be one of the parameters reported on to ensure that any new debt we assume does not affect our long-term sustainability. Under the *Fiscal Responsibility Policy*, payments on Government debt shall not exceed 5% of revenues.

REVENUE AND INTEREST EXPENSE (continued)



** Recoveries of prior years' expenses and net income from the NWT Hydro Corporation are not included in this total.*



CONCLUSION

As described in the Introduction, the Canadian Institute of Chartered Accountants has suggested that a Government's financial health should be measured in terms of sustainability, flexibility and vulnerability. The preceding measures have attempted to illustrate how the GNWT's fiscal health measures up from this standpoint. This suggests the following conclusions:

Sustainability – at the end of the 2009-2010 fiscal year, the GNWT had a net debt of $223 million compared to net debt of $34 million at the end of the prior year. This deterioration of our financial position is still manageable compared to our revenue stream of $1.4 billion. The net debt represents only 14.8%, or approximately 8 weeks of revenue. At March 31, 2010, the GNWT's long-term debt was $21.1 million (excluding the debt of the NWT Hydro Corporation, the NWT Opportunities Fund and the Deh Cho Bridge Corporation Ltd.) or 1.5% of the GNWT revenues for the year and less than 1% of GDP. These measures suggest that the GNWT may not be able to maintain current programs without increasing the debt burden on the economy to some degree but that an increased debt load is sustainable, at least for the short term.

Flexibility – this pertains to the GNWT's ability to increase its financial resources. The GNWT's own-source revenues increased from 25.6% in 2005 to 27.9% in 2010, but the majority of revenues still come from the Grant from the Government of Canada (Formula Financing arrangement). The GNWT does not have access to resource royalty revenues as the Government continues to control all NWT subsurface resources. The GNWT has a federally imposed limit on its borrowing of $500 million. Although the GNWT is currently well under its debt authority limit, $500 million represents only 34.6% of 2009-2010 expenses, or 18 weeks of operations. The debt limit has been temporarily increased to $575 million from April 2010 through March 31, 2015; however, the assumption of the Deh Cho Bridge Corporation's debt on April 1, 2010 is more than double the amount of the increase in the GNWT's debt limit.

Vulnerability – this is a measure of how dependent a Government is on sources of funding outside its control or influence. To assess the GNWT's vulnerability, it is not necessary to look further than the Government's limited own-source revenues and the volatility related to corporate and personal income taxes. The formula determining the Territorial Formula Financing Grant is fixed in federal legislation as of the 2008-2009 fiscal year and remains in effect until March 31, 2014.

In summary, the GNWT is financially stable at this point in time, but it has limited flexibility to raise new revenues and it continues to be very vulnerable to federal changes to its future revenues.

ADDITIONAL SOURCES OF INFORMATION

The GNWT produces several other documents and maintains web sites that may be referenced for additional information, including the following:

Government of the Northwest Territories Web Site at www.gov.nt.ca

Government of the Northwest Territories Public Accounts

- Section I – Consolidated Financial Statements
- Section II – Non-Consolidated Financial Statements

Supplementary Financial Statements (Entities included in the Government Reporting Entity)

Government of the Northwest Territories Main Estimates

Budget Address

Business Plans

Geographic Tracking Report

Results Report